Massey-Ferguson Limited

Annual Report 1977

R.O.B

Massey-Ferguson Limited

200 University Avenue, Toronto, Canada M5H 3E4

The Business of Massey-Ferguson
Massey-Ferguson is among the world's largest manufacturers of farm machinery, industrial and construction machinery and diesel engines. These products are made by the Company, its Associates and licensees in 92 factories in 30 countries, half of which are developing nations.

About the Cover
The stylized globe on the cover symbolizes Massey-Ferguson's role as a global corporation. Throughout the developed and developing countries of the world, the Company's farm machines are helping to grow the food needed by a rapidly expanding world population. Its industrial and construction machines are providing the muscle to build the housing and the support structures needed for our increasingly urban way of life. Perkins diesel engines, in a myriad of applications, are taking on increasing importance as efficient users of scarce fossil fuels. Massey-Ferguson—a global corporation doing a global job.

Contents

Reports to United States Securities and Exchange Commission

8-K Report
On December 23, 1977, the Company filed an 8-K report with the Securities and Exchange Commission. An amended report was filed in January, 1978. The report dealt with the subject of "questionable payments".

The Company's 8-K filing with the SEC was voluntary and follows the practice of U.S. corporations, including our major competitors. Massey-Ferguson is one of the few Canadian companies registered with the SEC. There is no provision or requirement for similar filings with securities commissions in Canada.

In the opinion of the Company, the information in the 8-K report was not material relative to the Company's operations nor was any action disclosed which is illegal in Canada or the United States or in any of the countries in which Massey-Ferguson has operating facilities.

Details of the 8-K filing, including a statement of Company Policy on Standards of Business Conduct, are being sent to shareholders with this report.

10-K Report
A copy of the Company's 10-K report for the 1977 fiscal year will be sent to shareholders upon written request to the Company Secretary.

Annual Meeting
The Annual Meeting of Shareholders will be held in the Canadian Room, Royal York Hotel, Toronto, Canada at 12 o'clock noon, on Thursday, March 9, 1978.

Le rapport du conseil aux actionnaires et certains extraits du rapport annuel en français peuvent être obtenu sur demande en s'adressant au Secrétaire de la compagnie.

Financial Highlights

		1977	1976
Operating Summary *(Millions of U.S. Dollars)*	Net sales	$2,805.3	$2,771.7
	Net income	32.7	117.9
Financial Status *(Millions of U.S. Dollars)*	Net current assets*	$696.6	$731.8
	Long-term debt*	616.4	529.4
	Capital and retained earnings	806.6	803.0
Per Common Share *(U.S. Dollars)*	Income (after preferred share dividends)	$1.26	$6.04
	Common dividends paid *(Canadian Dollars)*	1.08	1.00
	Equity	38.71	38.51
Statistical Data	Number of employees	67,151	68,200
	Number of shareholders		
	Common	30,619	31,039
	Preferred	10,208	10,620
	Shares outstanding		
	Common	18,250,350	18,250,350
	Preferred		
	Series A	1,600,000	1,600,000
	Series B	2,398,500	2,398,500

*excludes Finance Companies

Directors and Management

Directors

*John A. McDougald
Chairman of the Board of Directors and Executive Committee

*Albert A. Thornbrough
Deputy Chairman of the Board of Directors, President and Chief Executive Officer

**Member Executive Committee*
†Member Audit Committee

The Marquess of Abergavenny
*Alex E. Barron
Henry Borden, Q.C.
Charles L. Gundy
Gilbert W. Humphrey
H. N. R. Jackman

John D. Leitch
*†A. Bruce Matthews
*Maxwell C. G. Meighen
John E. Mitchell
A. M. Runciman
†John G. Staiger

J. Page R. Wadsworth
†Trumbull Warren
*Colin W. Webster
The Duke of Wellington

Honorary Directors: H. J. Carmichael, E. P. Taylor

Corporate Management

Albert A. Thornbrough
President and Chief Executive Officer

John G. Staiger
Senior Corporate Vice President

P. N. Breyfogle
Executive Vice President Europe

John E. Mitchell
Executive Vice President Americas

Hugo Vajk
Executive Vice President Asia/Africa/Australasia

M. R. Hoffman
Corporate Vice President

J. A. Belford
Corporate Vice President Personnel & Industrial Relations

D. G. Kettering
Corporate Vice President Product and Vice President Farm Machinery

R. W. Main
Corporate Vice President

W. K. Mounfield
Corporate Vice President Administration & External Relations

V. A. Rice
Corporate Vice President Staff Operations and Comptroller

H. A. R. Powell
Assistant to the President

Douglas Barker
Vice President and Treasurer

J. D. Goodson
Vice President Industrial & Construction Machinery

M. G. Bird
Director Legal Services

P. J. Dixon
Director Management Systems

D. C. Hayes
Secretary

E. H. Weichel
Director Public Affairs

Other Officers of the Company:
Victor Koury, W. H. Mason, Vivian de Mesquita and G. F. Ryan, Assistant Treasurers;
R. D. Garland, Assistant Secretary

Operations Management

Americas John E. Mitchell *Executive Vice President*
Director Business Development - D. L. Douglass
Director Export Operations - R. T. Doutre
Director Finance - V. D. Laurenzo
Inventory Planning Director - E. J. Whelan
Director Manufacturing Development - J. C. Overbeck
Director Special Operations - Abel Baca

Argentina - G. M. Yeatts *General Manager*
Brazil - J. A. Engelbrecht *General Manager*
Mexico - Abel Baca *General Manager*
North America - John E. Mitchell *General Manager*
B. M. Brown *Senior Director Operations*
V. D. Laurenzo *Senior Director Finance*
W. A. Fredericks *Senior Director Marketing*
Canada - (Massey-Ferguson Industries Limited)
W. A. Murray *President*

Asia/Africa/Australasia Hugo Vajk *Executive Vice President*
Director Special Operations - F. N. Wilkinson
Director Technical Services - K. J. M. Godlewski
Executive Director Regional Operations - Ralph Ramsay
Special Assistant to Executive Vice President - G. R. Johnson
Director Finance - D. B. Long
Director Market Supply - R. Hinchliffe

Polish Projects - Ralph Ramsay *Director*
Australia - M. E. Davis *General Manager*
South Africa - L. B. Knoll *General Manager*

Europe P. N. Breyfogle *Executive Vice President*
Director Regional Services - S. V. Bishop
Director Finance - J. Koor
Director Farm Machinery Marketing Staff - P. G. Barger
Director ICM Marketing Operations - A. N. Wright
Director Parts Staff - Albert Jebson
Director Product Staff - Pierre Tiberghien
Director Technical Staff - G. E. Smith

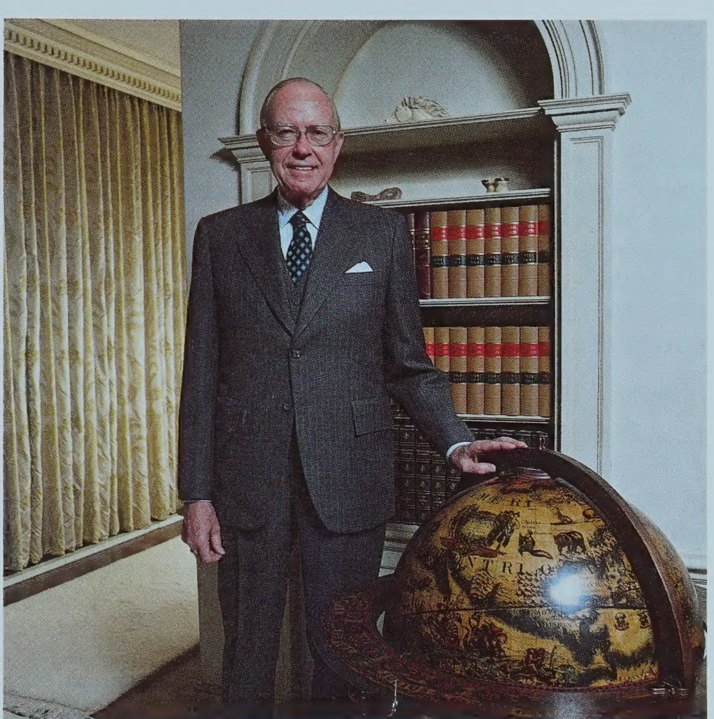
Export Europe - J. D. Parsons *General Manager*
France - P. E. Poniatowski *General Manager*
Italy - J. J. Campbell *General Manager*
United Kingdom - H. J. Hebden *General Manager*
West Germany - Ursula Brinkmann *General Manager*

Engines Group M. R. Hoffman *Chairman and Managing Director Perkins Engines Group Limited*
Assistant to Managing Director - C. J. Hind
Group Director Finance & Administrative Staff - A. J. Parsons
Group Director Product Staff - Rolando Bertodo

Eastern Hemisphere Area - R. C. Clarke *Executive Director*
Latin America & Caribbean Area - J. M. Felker *Executive Director*
Brazil - Jorge Silveira *General Manager*
North America Area - K. E. Glass *Executive Director*
United Kingdom Area - M. R. Hoffman *Executive Director*

Report of the Directors to the Shareholders

For the year ended October 31, 1977



Albert A. Thornbrough, President and Chief Executive Officer

Through most of the years 1972 through 1976 Massey-Ferguson operated under supply constraints in spite of which we reported annual improvements in production, sales and net income. During this period, manpower and funds were directed toward the development of new products and the improvement of existing products in order to broaden our major lines and make us fully competitive. Only in this way could future growth be assured. At the same time, Massey-Ferguson acquired some new facilities and generally upgraded existing facilities and equipment—again with the objective of becoming fully competitive in supply capability and manufacturing efficiency.

During the latter part of the 1972-1976 period, the economic recession placed limitations on growth, particularly in the capital goods sector, affecting sales of industrial and construction machinery and diesel engines. Recovery from the recession began in 1976 and has continued at a slower pace in 1977. Inflation and unemployment, however, remain at unacceptably high rates in most industrialized countries and the growth of industrial production has proved to be inadequate to cope with these problems.

In the agricultural sector, world food production was somewhat erratic through much of the period but in 1976 a record crop lifted world food stocks to a more comfortable level in terms of population requirements. Large carry-over stocks, however, concentrated primarily in North America, depressed world prices of wheat and feed grains and introduced an element of uncertainty in the income and outlook of North American farmers.

Against this background, the Company began its 1977 fiscal year with major programs of product introductions, heavily concentrated in the case of tractors in its European plants. The new models offered many desirable engineering improvements but the major change from a manufacturing point of view was the addition of a cab to comply with safety and noise legislation which became effective in many European countries in 1977. Unfortunately, the legislative requirements varied widely among countries and these variances greatly complicated manufacturing and assembly processes.

The manufacturing schedules, which had been disrupted initially by the introduction of new models, were further impaired by a long strike at our United Kingdom tractor plant involving workers on the cab tractor assembly line, and by a work stoppage at our French tractor facility. Following resumption of work at the United Kingdom tractor plant, we had anticipated some recovery of production in the second half of the year but expectations were frustrated when a number of suppliers of key components were unable to maintain delivery schedules because of labour disputes.

The obvious result of these problems was a significant shortfall from our 1977 production goals particularly in terms of our new cab tractors. The consequences were an unbalanced and excessive work-in-process inventory and an unacceptably high percentage of tractors coming off assembly lines in unshippable condition, requiring subsequent fitting of missing components.

The Company also experienced a decline in demand during 1977 in two major farm machinery markets. In Brazil, disruption of the flow of government credit to the rural sector in the latter part of 1976 created large inventories of farm machinery in dealers' hands. With the resumption of a reduced flow of credit in 1977, the Brazilian company cut its manufacturing programs to permit the dealer pipeline to be adjusted to more normal levels. This corrective action affected manufacturing output and wholesale sales and resulted in operating losses in Brazil.

The North American demand for farm machinery also changed during the course of the year, influenced by unusual weather which produced near-drought conditions in many areas during the spring planting season and excessive rainfall during the harvest season. Crop uncertainties together with relatively low prices for farm commodities throughout 1977 influenced the farmers' buying attitudes. The result for Massey-Ferguson was a significant shortfall from North American sales objectives in the months of September and October. Loss of sales in this period had an adverse effect on income and resulted in unplanned additions to dealer inventories which, however, are still at generally acceptable levels relative to sales volume.

World-wide sales for the year ended October 31, 1977, were U.S. $2,805 million, a slight improvement over 1976. Sales of farm machinery at $1,961 million were two per cent below 1976; industrial and construction machinery sales increased five per cent to $398 million; and engine sales were up 14 per cent to $387 million. On a regional basis, sales in Europe and Africa were ahead of 1976 but sales declined in North America, Latin America and Asia.

Net income of $32.7 million was down sharply and was $1.26 a common share after provision for preferred dividends. The comparable figure for 1976 was $6.04 a share.

Detailed comments on sales and an analysis of expenses and other factors are contained elsewhere in this Report, particularly in "Management Discussion and Analysis of Summary of Operations" on page 20.

Associate Companies

Sales of our largest Associate, Motor Iberica S.A. of Spain, reached $444 million, an increase of 26 per cent. These sales included $96 million of exports including the supply to Massey-Ferguson of complete tractors and major components for tractors and engines. Motor Iberica invested $15 million in capital equipment to increase production capacity and broaden its range of products.

Our Indian Associate, Tractors and Farm Equipment Limited, achieved substantial gains in production, sales and net income following several unsatisfactory years. Sales in 1977 were at a record level of $62 million.

The continuing growth in production capability of our Associates and their support of Massey-Ferguson's world-wide operations are appreciated.

Capital Expenditures

Capital expenditures of $147 million were less than 1976 as a result of management decisions to defer some capital programs, mostly in the U.K. and Brazil. The majority of the expenditure was related to completion of planned phases of product line expansion.

For 1978, capital expenditures are estimated to be $140 million, most of which will be applied to the completion of manufacturing expansion projects begun in prior years and to new products needed to maintain and improve the Company's competitive position.

Financing

During 1977, $40 million of senior long-term borrowing was obtained through various subsidiaries, mainly to replace some of the debt that matured during the year.

The Company also completed a major financing program to meet current and future requirements. Part of this program was implemented in September when a group of U.S. institutions purchased $147 million of convertible subordinated notes maturing in 1992 and convertible into common shares of Massey-Ferguson Limited on the basis of U.S. $45 a share up to 1982 and U.S. $55 thereafter. Because the conversion price is high relative to present market prices of the Company's common shares, the convertible subordinated notes will not have an immediate effect on shareholders' equity. They will help, however, to strengthen the balance sheet and assist our future borrowing plans.

Agreements also were signed with U.S. institutional investors for the placement of $150 million of senior notes maturing in 1997. The sale of these notes was completed after the close of the 1977 fiscal year.

Industrial Relations

The industrial relations climate throughout 1977 was relatively stable in most of the countries in which Massey-Ferguson has production facilities. However, major disruptions of production because of strikes occurred in the Company's plants in the United Kingdom and France early in the year. A number of our component suppliers in the U.K. also were closed by strikes in the August-October period.

In January, assembly workers at the Coventry tractor plant went on a 10-week strike over manning levels for a new line of cab tractors. A dispute over rates in the Kilmarnock combine factory resulted in a nine-week strike in the second quarter. In the United Kingdom, annual agreements with the Company's manual workers were completed within government wage guidelines.

In France, sporadic and politically motivated strike action at the Beauvais tractor plant during the second quarter eventually developed into a one-week strike.

A three-year master agreement covering our U.S. factories was ratified in January, 1977. In Canada, although negotiation of a three-year agreement was completed before the strike deadline, a legal walkout immediately prior to ratification closed the Brantford plants for several days.

Dividends and Shareholders

The regular quarterly dividends of 25 cents (Canadian funds) a common share and an extra dividend of eight cents a share were paid in the 1977 fiscal year.

The percentage of shares registered at year end in the names of Canadian residents was 58 per cent and in the names of U.S. residents 40 per cent. The comparable figures at the end of 1976 were 65 per cent and 33 per cent.

Board and Senior Management Changes

John A. McDougald was elected Chairman of the Board and Albert A. Thornbrough Deputy Chairman. H. N. R. Jackman was appointed a Director at the January 5, 1978 meeting of the Board. Mr. Jackman is Chairman of The Empire Life Insurance Company Limited of Toronto.

Henry Borden, Q.C., has indicated his wish to retire as a Director and will not be standing for nomination at the forthcoming meeting of shareholders. We wish to acknowledge

Mr. Borden's contribution to the growth of the Company and to record our appreciation of his judgment and counsel during 22 years as a Director. In recognition, he has been appointed an Honorary Director effective March 9, 1978.

A number of appointments were made during 1977 to increase the strength and effectiveness of senior management and in some cases to realign responsibilities.

V. A. Rice was appointed Corporate Vice President Staff Operations, replacing J. G. Staiger who had been carrying this responsibility in addition to his duties as Senior Corporate Vice President. Douglas Barker was appointed Vice President and Treasurer.

To provide a coordinated approach to product development, D. G. Kettering was appointed Corporate Vice President Product. The Farm Machinery and Industrial and Construction Machinery product divisions, while reporting to Mr. Kettering, will maintain their separate identities. A newly formed Parts Division, headed by J. L. Egan, formerly European Director of ICM Marketing Staff, has been placed under Mr. Kettering.

Effective November 1, 1977, W. K. Mounfield was appointed Corporate Vice President Administration and External Relations. He had been President of the Canadian operating company and continues as Chairman of the Board of that subsidiary. M. G. Bird was appointed Director Legal Services and D. C. Hayes was appointed Secretary. R. W. Main, formerly Vice President Administration, Director Legal Services and Secretary, continues as Corporate Vice President.

W. A. Murray, formerly Director Logistics, was named President of Massey-Ferguson Industries Limited, our Canadian operating company.

P. J. Wright requested early retirement and relinquished his position as Executive Vice President Engines effective December 31, 1977. M. R. Hoffman, Executive Director U. K. Area Operations, has been appointed Corporate Vice President and has assumed Mr. Wright's responsibilities for the Engines Group. Mr. Hoffman will continue to carry the direct responsibility for the Engines Group U.K. Area Operations.

H. J. Hebden, formerly Deputy Managing Director, was appointed General Manager of United Kingdom Operations following the resignation of R. M. Jennings.

Outlook for Massey-Ferguson in 1978

The 1977 fiscal year, which began with severe production constraints, became increasingly difficult for the Company as demand softened in several major markets as well as in some developing countries where imports were restricted by a shortage of foreign exchange. These problems will continue in 1978 and are largely a reflection of reduced farm commodity prices and of the inability of the major economies to achieve higher rates of investment and growth.

The outlook for industrial and construction equipment and diesel engines is similar to that experienced in 1977 and improvement will be dependent largely upon world-wide fixed capital investments. Programs to stimulate the capital goods sector have been announced by several major European countries for implementation in 1978.

Although it appears that demand for farm machinery will improve in some markets in 1978, notably Asia and Africa, the outlook is mixed and is heavily dependent upon what happens in the important markets of North America and Brazil.

A major advantage which Massey-Ferguson carries into 1978 is a strong competitive position resulting from introductions of new and improved products in 1977 and early 1978.

On balance, 1978 will be a year of substantial adjustments for Massey-Ferguson. The problems and difficulties of 1977 will continue into 1978 and will have an adverse effect on income in the first quarter and possibly longer. Actions to increase profitability, to reduce the level of inventories and to improve the flow of production—all of which were begun in 1977—will continue to be given the highest priority through 1978.

To all members of the Massey-Ferguson family—employees, dealers, distributors, licensees and Associate Companies—we express appreciation for their support during a difficult year. Together we can look forward with confidence despite the indicated problems of 1978.

On behalf of the Board,

J. A. McDougald

John A. McDougald
Chairman of the Board

Albert A. Thornbrough

Albert A. Thornbrough
Deputy Chairman of the Board,
President and Chief Executive Officer

Toronto, January 27, 1978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Farm Machinery

Sales of farm machinery in 1977 were $1,961 million, down $40 million or two per cent from 1976, and represented a substantial shortfall from the Company's objectives. In the early part of the year, the Company was unable to meet demand because of strikes and new product introduction problems in plants in the United Kingdom and France. In the second half of the year, demand weakened in some markets including a sharp decline in North America in September and October. Throughout 1977, Brazilian sales remained below 1976.

World-wide production of Massey-Ferguson tractors in 1977 was 172,800 units, down 11 per cent from 1976. The decline occurred primarily in the United Kingdom and Brazil.

World-wide production of combines was 12,800 units in 1977, down 19 per cent from 1976. Production at the Company's largest combine facility in Brantford, Ontario, was at capacity during 1977. European production reflected a continuing low level of demand, although up somewhat from 1976. Production in Brazil was down sharply as a result of inventory adjustment.

Americas

North America

Farmers' buying attitudes during September and October were affected by adverse weather conditions, by the low levels of farm commodity prices and by uncertainty about the U.S. Government's farm policies.

Through the first nine months of the fiscal year, the Company's farm machinery sales in North America kept pace with those of the previous year and in fact were ahead for the third quarter by eight per cent. Sales in the fourth quarter, however, while close to the record level of 1976 fell significantly short of the Company's objective.

As a result, the level of dealer inventories of farm machinery was higher than at October 31, 1976. This inventory level relative to sales is not viewed by the Company as unduly high.

Improvement in manufacturing facilities and capabilities, particularly for tractors and combines, continued, as planned in 1977.

In 1978, the Company will complete the introduction in North America of its new line of over-100 hp, two-wheel-drive tractors of which the two largest models were available in 1977. Two large four-wheel-drive tractors of 225 hp and 270 hp also will be offered in the North American market.

New products available in North America in 1977 include the 190 hp MF 2805 (shown here) and the 160 hp MF 2775 tractors which offer greater power for today's farming needs as well as improved operator comfort and convenience features. Also shown are two heavy tillage implements designed to use the power of these big tractors in varying soil conditions. At left, the new MF 139 chisel plow will be available in field working widths up to 15.5 metres (51 feet) and folds for convenient transport. At right, the MF 820 tandem-disc harrow available in widths up to 10.2 metres (33.5 feet)

In Detroit, Michigan, a new high-rise warehouse adjacent to the tractor plant provides storage for components and has a computerized retrieval capability to match assembly requirements. Assembly lines have been rearranged and extended to provide additional capacity for the Company's new line of over-100 hp tractors and assembly is scheduled to commence in January, 1978. New tooling and a new transfer line are being added to the Van Born transmission and axle plant in Detroit.

In the combine plant in Brantford, Ontario, assembly lines have been rearranged for more efficient operation and to permit some additional production, including two upgraded medium size combines and a pull-type model.

Argentina

The agricultural and livestock sector was the chief factor in the growth of national product in 1977, with gross farm income up 49 per cent.

Tractor unit sales for the industry increased more than 25 per cent. With the launch of a new series of tractors in the 43 hp to 102 hp range, Massey-Ferguson's share of the market remained at 34 per cent.

Brazil

The Brazilian economy grew at an annual rate of more than five per cent in 1977 and a similar rate of growth is expected in 1978. The balance of trade improved and was favourable for the year; however, inflation exceeded the government's objective.

The government continued to control overexpansion of the economy through credit restraints. There was some reduction in real terms in the credit available for farm mechanization which reduced farm machinery sales, particularly combines.

The government's credit policy for 1978 has not yet been announced but it is expected that agriculture will continue to be given high priority. In real terms, however, credit available for agricultural investment may be as much as 10 per cent below 1977.

The Brazilian company is introducing in 1978 a broader combine range and a 102 hp tractor to meet a growing demand for larger equipment.

Mexico

Increased political stability and rapidly rising oil exports should greatly strengthen Mexico's balance of trade position. On the basis of this improvement, there is expected to be greater availability of credit for the farm sector in 1978.

Massey-Ferguson retained a leading position in the tractor market although industry sales in 1977 were slightly below the previous year.

Other Latin American Markets

The economies of Central America and South America generally improved in 1977 but the Caribbean area remained depressed because of the low world price for sugar. Governments continued to support agricultural production in order to reduce imports of basic foods and obtain export revenue from products such as coffee and cotton.


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Industry sales were ahead of 1976 for the total region but were down in a few major markets where adverse balance of payments resulted in government restrictions on imports.

Massey-Ferguson's farm machinery sales and share of market increased in the 29 Latin American countries served by the Americas Export Operations.

Europe

United Kingdom

The farm machinery market remained buoyant and industry sales of tractors in units were only slightly below the record level of 1976.

Massey-Ferguson's new series of cab tractors, 47 hp to 75 hp, were in strong demand throughout 1977 but because of production constraints market leadership was not regained. In the combine market, which remained at the 1976 level, Massey-Ferguson achieved market leadership.

France

As a result of economic and climatic conditions, the market for farm machinery declined in 1977. Industry tractor sales were down 20 per cent and combine sales 34 per cent.

New cab tractors, with a power range of 56 hp to 75 hp, were shown at the Paris Salon early in 1977. Unfortunately, demand could not be met fully because of initial manufacturing difficulties and delays, and a subsequent strike. In spite of the difficulties, the French company improved its share of the tractor market.

The company also increased its share of the market for harvesting equipment, with a small improvement in combines and a substantial gain in balers.

West Germany

Farm income declined slightly during the year. Industry sales of tractors and balers remained at about the 1976 level, but combine sales increased by 20 per cent with the return to more normal harvesting conditions following the extremely dry summer of 1976.

An inadequate supply of tractors from France restricted sales in the early part of the year but improved availability permitted strong gains in the fourth quarter. For the year, market share declined slightly.

Italy

During the last quarter of 1977, there was considerable falloff in farm machinery demand arising from a shortage of farm credits and anticipation of a poor harvest.

Massey-Ferguson slightly increased its share of the tractor market, although suffering from a shortage of imported models from France.

The Italian company added to its Landini line of tractors two models of 110 hp and 135 hp in two-wheel- and four-wheel-drive versions. These are currently the most powerful tractors manufactured by Massey-Ferguson in Europe. Production of the Landini line reached a record level of 13,500 units. The plant now has a capacity of 15,000 units annually.

Other European Markets

Despite an inadequate supply of cab tractors, Massey-Ferguson held its share of the tractor market through increased sales of non-cab models. Industry sales of tractors were close to the 1976 level.

The Company improved its share of the market for combines and balers, although industry sales showed no improvement over 1976.

Asia, Africa, Australasia

Australia

The Australian economy, in a recession since 1975, was further depressed by a prolonged strike of electrical supply workers in Victoria which reduced industrial output. Severe drought conditions were experienced in many areas and a decline in net farm income reduced farm machinery sales below the 1976 level.

During 1977, the Australian company introduced two major machines, the MF 542 combine and the MF 205 sugar cane harvester.

South Africa

Farm income for the year was above 1976 and the South African company's sales increased in most product categories although hampered by inadequate supplies of machines imported from the United Kingdom.

The South African company's earnings continued to decline from the record levels of 1975 as a result of the unsettled social and economic environment.

Japan

During the year, Massey-Ferguson imported its 20,000th tractor into Japan and maintained a 20 per cent share of the over-40 hp category. While demand for MF tractors continues strong, competition is developing in the higher horsepower range from local manufacturers.

Other Far Eastern Markets

In the other major farm machinery markets of the Far East, which include Thailand, Malaysia, Indonesia and New Zealand, sales increased by 50 per cent over 1976. There is a marked trend towards mechanization in the Far East, notably in the harvesting of rice.

The MF 750 combine harvester, shown here working in swathed grain, is available with a choice of two sizes of Perkins diesel engines to meet different power requirements under varying conditions. For 1978, two intermediate-size combines have been added which are adaptable to different crops and harvesting conditions through a wide range of crop gathering devices. At left, the new MF 540 combine harvesting a field of soybeans. Middle picture, the new MF 550 combine harvesting standing cereal grains. At right, the MF 550 in operation with a six-row corn head.


MF
MF
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Iran
The tractor manufacturing project at Tabriz continued to progress in collaboration with the Iran Tractor Manufacturing Company. Machine tools are being installed to provide initial capacity of 10,000 units per year.

Retail demand for farm machinery was significantly below government expectations and Massey-Ferguson's exports of tractors to Iran were reduced because heavy shipments in the second half of 1976 were sufficient to meet 1977 demand.

Pakistan
Because of bottlenecks in the assembly plant at Lahore, Massey-Ferguson's shipments of tractor components to Pakistan were well below the record level achieved in 1976. Retail demand, however, continued at a high level.

Turkey
In 1977, Massey-Ferguson held, and continues to hold, large orders from Turkey for tractors. Turkey's balance of payments position worsened, however, and the lack of foreign exchange halted shipments of tractors in the early part of the year. Foreign exchange became available on a much-reduced scale later in the year and limited shipments were made against outstanding orders.

The extension of long-term credit to Turkey by the Brazilian Government enabled Massey-Ferguson to begin shipment of tractors from its Brazilian plant in October. It is anticipated that 3,600 units will be shipped under this arrangement during the first half of 1978.

The Company is examining other sources of credit which may permit additional shipments to Turkey in 1978.

Other Markets
In other countries of the Asia, Africa, Australasia Region, Massey-Ferguson secured orders in some markets in which previously it had not had significant participation. Egypt purchased 250 tractors from the United Kingdom and placed an order for 2,100 sets of North American tractor components for local assembly in 1978. Vietnam took delivery of 480 tractors from France and Mozambique imported 400 tractors from Brazil. In Sri Lanka, delivery began in 1977 on a shipment of 500 tractors from the United Kingdom.

Poland
Progress continues on construction of the Ursus factory where Massey-Ferguson tractors will be built under the collaboration agreements with the Polish Government.

Shipments of component sets to Poland are scheduled to begin in 1978 to support the initial assembly of tractors.

Other Projects
Introduction into selected world markets began in 1977 of a new range of below-40 hp tractors made under licence in Japan by Toyosha. The most promising applications for these tractors are for specialty crops in the Far East, on estates and parks in Europe, and generally for farmers with small holdings.

An agreement was concluded in 1977 with the Libyan Government to form a joint venture company in which Massey-Ferguson will hold one third of the equity capital of $7.5 million. Preliminary work was begun on plans for a plant near Tripoli with an initial capacity of 3,000 tractors a year.

Negotiations with certain governments and with commercial interests in Africa, the Middle East and Asia are in advanced stages.

The new MF 925 and MF 725 mower conditioners broaden the MF range of hay and forage machines. The machines, which cut, condition and windrow hay in one operation, have a cut of nine feet and seven feet respectively. At left, the MF 128 baler is part of the Company's new family of balers produced in Europe and North America. Middle picture, two new high-capacity forage harvesters are available with easily interchanged corn head or pick-up crop gathering mechanisms. At right, the MF 70 rotary mower is a popular hay making machine produced in the United Kingdom.


60
MF
MF

Industrial and Construction Machinery

Manufacturing Facilities

Rationalization of production between the Company's major plants in West Germany and Italy was completed in 1977. All wheel loaders, crawler loaders and crawler dozers over 140 hp are now produced at the Hanover factory, and all excavators and crawler loaders and dozers under 140 hp are now produced at the Aprilia factory.

Production of certain gears and axles began at Hanover in 1977 to support the Company's requirements for these components for its farm machinery and industrial and construction machinery. The Italian factories also have substantially increased their in-house manufacture of components. These actions will have a favourable impact on product quality and manufacturing costs.

Demand for tractor-backhoe-loaders produced at the Knowsley and Manchester factories in the United Kingdom continues to exceed supply. Additional capacity is planned for 1978.

New Products

The process of upgrading specifications and performance of models and of broadening the product line continued through 1977 and several new models were launched during the year.

Three track-type and two wheel-type excavators, production of which began at the Aprilia factory in 1977, were introduced into European markets.

The MF 400C 87 hp crawler loader went into production at Aprilia. The equivalent crawler dozer, the MF D400C, was successfully launched in 1976. These two units, which cover the popular 80 hp to 95 hp class of crawler loaders and dozers, feature full power-shift transmissions, excellent product performance and improved operator comfort and ease of operation. Special long undercarriage and low ground-pressure versions of the dozer as well as mechanical transmission options were made available during 1977, adding to the versatility and application of these units.

Production is starting in the United States of a major new industrial machine, the MF 60 tractor-backhoe-loader. The MF 60, one of the most advanced machines in the industry, has a variable displacement hydraulic system that ensures much higher productivity with lower fuel consumption than conventional hydraulic systems. The MF 60 also features a low-noise-level cab to minimize operator fatigue and provide maximum comfort.

The MF 60 tractor-backhoe-loader, the newest addition to the industrial machinery line, is designed for operator comfort, economy of operation and high productivity. At left, the new MF 400C crawler loader has been launched successfully in many markets and has gained a reputation for outstanding performance and quiet operation. Middle picture, the MF D700C crawler dozer, shown in operation in Malaysia with its forestry protection package, has proved itself in heavy winching and logging applications. At right, the MF C55C is one of three sanitary landfill compactors which are becoming increasingly popular.

At Hanover, the German company continued to expand the application and marketability of its construction machines through an ongoing program of new features and improvements. For example, the MF D600C and MF D700C crawler dozers, equipped with mechanical winches and a complete protection package for forestry application, were designed for the heavily forested areas of the Far East and Australia.

During 1977, the compactor line was introduced in a number of markets outside West Germany. The acceptance of this machine in municipal applications, particularly sanitary landfill work, is of growing significance.

Massey-Ferguson has concentrated its product development on types and sizes of machines which have the largest volume potential world-wide. The result is a product line which includes the most popular sizes of wheel loaders, crawler tractors, excavators and industrial wheel tractors. With appropriate attachments these basic machines can be adapted to serve a wide variety of customer applications.

Sales

The world's major markets for industrial and construction machinery showed a mixed pattern of demand in 1977. The United States market was relatively strong but demand in Europe and Brazil was down in comparison with 1976.

Massey-Ferguson's sales were $398 million, up five per cent from 1976. Excluding Brazil, where there was a substantial downturn in demand, the Company's world-wide retail sales in units were slightly ahead of 1976.

Americas

North America

In North America, the market for industrial and construction machinery was stronger than in the depressed years of 1975 and 1976, the strength being due largely to an upturn in housing construction.

Massey-Ferguson's North American production increased 19 per cent over 1976, reflecting the introduction of a new range of industrial machines for which there was a buoyant demand.

The Company's sales of industrial and construction machinery were 20 per cent greater than in 1976. This growth was the result of improved demand in the United States where housing construction activity was at a high level. In Canada, however, housing starts showed little improvement and the Canadian market for industrial and construction machinery was down slightly.

Brazil

In Brazil, industry demand fell sharply as a result of economic controls and Massey-Ferguson's unit sales declined by 48 per cent from 1976.

Brazil's credit restrictions throughout 1977 severely limited demand for crawler tractors used in the clearance of land for agricultural development, a major market for the Brazilian company's machines.

Other Latin America Markets
To support the Company's expanding construction machinery line, additional specialized retail distribution outlets were established in high-potential countries in South America and the Caribbean, resulting in increased sales in 1977.

Europe

Although industry demand in Europe was below 1976, Massey-Ferguson improved its share of industrial and construction machinery sales.

Production of tractor-backhoe-loaders was above the previous year despite suppliers' strikes in the United Kingdom, but demand again exceeded production.

France
Construction activity remained depressed and industry sales of industrial and construction machinery in units were down 40 per cent compared with 1976.

Massey-Ferguson's sales of construction machines were up 23 per cent and its market share of industrial and construction machines improved significantly in 1977 due to availability of a broader range of products suitable for the French market.

West Germany
Although construction activity was relatively strong early in 1977, it declined as the year progressed and did not show any improvement over 1976. Government support programs for the public sector had a stabilizing effect but did not stimulate an increase in demand for machinery.

Massey-Ferguson's sales of industrial and construction machinery were at the 1976 level and the Company maintained market leadership in several major categories of machines.

Italy
Construction activity turned down markedly in the second half of the year, but Massey-Ferguson's sales of industrial and construction machinery were up 12 per cent from 1976 and its market share increased significantly.

United Kingdom
Construction activity has been depressed since 1974 and the construction industry continues to operate below capacity.

Massey-Ferguson's share of the tractor-backhoe-loader market was maintained and advances were achieved in those segments of the construction machinery market in which our products compete strongly, particularly wheel loaders and compactors.

Other European Markets
Demand for industrial machinery remained generally buoyant, but was down for construction machinery, particularly in the Scandinavian countries.

Massey-Ferguson improved its market share in all product categories with a six per cent increase in retail unit sales over 1976.

Asia, Africa, Australasia

Industry sales in this region were down in Australia, South Africa and the Middle East, but markets in Africa and the Far East showed improvement.

Australia
Although Australian construction activity remained depressed, Massey-Ferguson's unit sales of crawler dozers improved in 1977 and sales of industrial machinery were maintained at the 1976 level.

South Africa
Construction activity was at its lowest ebb in many years. Despite this environment, Massey-Ferguson's unit sales in most industrial and construction machinery categories were equal to 1976.

Engines

Diesel engine sales in 1977 were $387 million, an increase of 14 per cent over the previous year. Continued growth in the industrial machinery, construction machinery, vehicle and marine sectors offset a reduction in demand for agricultural applications.

World-wide production of engines by Perkins, its Associates and licensees was 570,600 units, an increase of four per cent over 1976. Of this number, Perkins built 319,400 units compared with 347,000 units in 1976. Associates and licensees produced 251,200 Perkins engines compared with 201,000 in 1976.

United Kingdom

Production in 1977 was 228,200 units compared with 270,000 units in 1976. The decline was a consequence of reduced requirements for Massey-Ferguson.

Capital expenditures in 1977 were made for additional and replacement machine tools which permitted improvement in delivery performance and in engine and component quality and assured that the latest technology is incorporated in the manufacturing process. New tools include a crankshaft lathe which uses carbides to turn steel crankshafts and is the second of its type in the world.

Engine component kits to support production of other Perkins factories and of Associate Companies and licensees in 15 locations, principally in the United States, Mexico, and Yugoslavia were supplied at a rate of 850 sets a day in the second half of the year.

Brazil

Sales of Perkins engines were affected adversely by credit restrictions introduced by the government to control the rate of inflation. Although demand for agricultural and industrial uses was down, production of engines for vehicle applications rose by 36 per cent. This growth in vehicle applications reflected market acceptance in Brazil of the recently introduced 60 hp four-cylinder 236-cubic-inch engine as well as exports of vehicle engines to support the Perkins operation in Peru.

In 1977 production was 50,700 units compared with 64,000 units in 1976. The decline was the result of reduced requirements for Massey-Ferguson and other agricultural machinery manufacturers. During the year, production began of the improved version of the 93 hp six-cylinder 354-cubic-inch engine.

In last year's Report, mention was made of a long-range plan to increase capacity to 100,000 units a year. During 1977, assembly and test facilities for both the four- and six-cylinder engines were expanded in accordance with that plan and capacity has been increased to 57,000 units for 1978.

West Germany

Production of finished engines at Hanover reached 15,800 engines during 1977, the first full year for this facility. In addition, machining of engine blocks began.

Production of the 70 hp four-cylinder 165-cubic-inch engine, supplied to Volkswagen as a diesel option for its light van, continued according to plan. The Perkins engine is now installed in 50 per cent of the vans produced in West Germany by Volkswagen for domestic and export sales.

During 1977 this engine was selected by American Motors Corporation for installation in its new CJ Series Jeep which will be available initially in Europe in the 1978 model year. The engine also will be supplied to selected assembly plants of American Motors throughout the world.

France

Production of the 96 hp four-cylinder 318-cubic-inch engine for agricultural applications was 4,800 units in 1977 and is planned at 6,000 units for 1978. An uprated version of this engine with about 10 per cent more horsepower will be supplied exclusively for Massey-Ferguson products.

United States

Advanced technology transfer lines for machining blocks and heads for four- and six-cylinder engines and new highly automated test cells were put into operation at the Canton, Ohio plant. Full production on a one-shift basis began in April and output reached 20,100 units in 1977.

Associates and Licensees

Spain

New machining lines for cylinder blocks and heads for the four-cylinder 165-cubic-inch engine have been installed by Motor Iberica S.A., and are scheduled to be put into production in June, 1978. This annual capacity of 35,000 sets will serve the Spanish market and continue to provide Perkins' requirements for blocks and heads for the 165-cubic-inch engine manufactured at Hanover.

Yugoslavia

In 1977, the licensee, Industrija Motora Rakovica completed 50 years of operation, the last 23 years of which have been in association with Perkins. A new agreement for continuing technical collaboration was signed during the year.

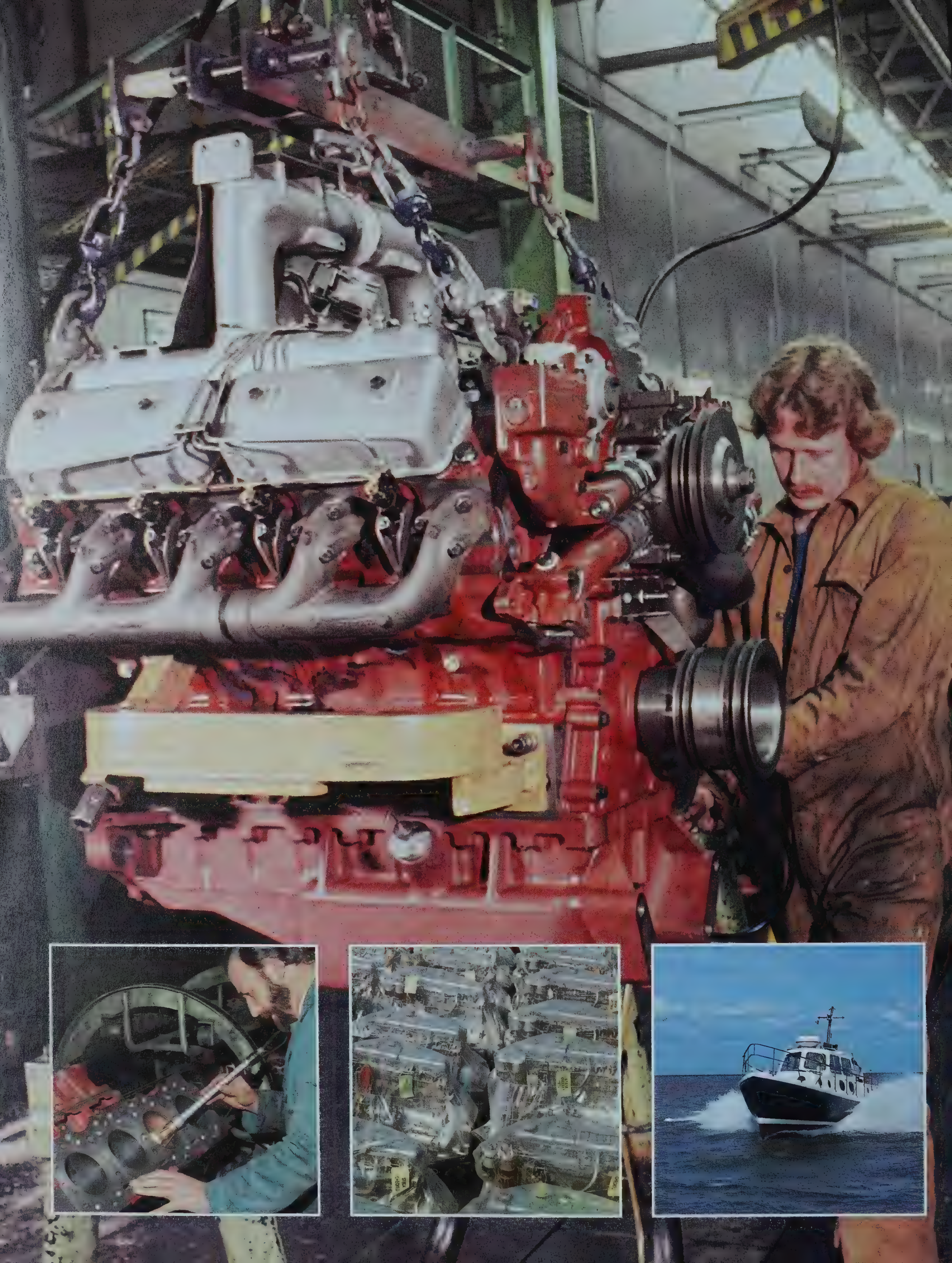
Iran

Initial assembly of three- and four-cylinder engines based on components from the U.K. is due to start in the Tabriz factory in the spring of 1978.

Increasing requirements for locally manufactured portable compressors, forklift trucks, cranes and generating and pumping sets provide a market opportunity for diesel engines. Perkins opened a Sales and Service Division in October, 1977 to develop this market.

Poland

Assembly of three-cylinder engines at the Ursus plant will commence in the second half of 1978 using Perkins components from the United Kingdom. The block machining line for the three-cylinder engine is due for delivery early in 1978 and the remaining major machine tools for delivery late in the



year. Assembly of the four-cylinder engine is expected to begin in mid-1978.

At the Andrychow plant, assembly of six-cylinder engines will begin in the second half of 1978, using Perkins components from the United Kingdom.

Mexico

Transfer of operations to a new 158,000-square-foot factory at Toluca near Mexico City was completed. Technical assistance is being provided by Perkins to upgrade the six-cylinder engine which has been produced in Mexico since 1966.

Argentina

During 1977, output increased to a record 34,400 engines, including production of a new turbo-charged six-cylinder engine. Support was provided from Argentina to the Perkins licensee in Uruguay and programs were initiated for exports to Chile, Paraguay and Bolivia.

Peru

Under an automotive industry agreement signed in September, the Andean Group countries (Bolivia, Colombia, Ecuador, Peru and Venezuela) established the basis for rationalized production of diesel engines. Because its engines are usable in many applications, Perkins has been selected as a manufacturer of diesel engines in the range of 45 hp to 180 hp.

A joint venture facility, established by Perkins, Volvo and the Peruvian Government, began production of four- and six-cylinder engines in 1977. It is expected that ultimately this facility will supply Perkins cylinder blocks and heads to other Andean Group countries.

Engine Development for Forklift Application

Of all diesel-powered forklift trucks operating world-wide, 45 per cent are powered by Perkins engines. Its four-cylinder 203-cubic-inch engine has been highly successful in this application. Sales of Perkins engines for forklift trucks were 26,000 units in 1977.

During 1977, a new version of this engine was announced incorporating an unique technical development, the Perkins "Squish Lip" combustion chamber, which results in lower levels of noise and emissions. These features will provide an improved working environment for forklift truck operators and will ensure high acceptability. This new engine will come into production during 1978.

A 640-cubic-inch V8 diesel engine, the largest and most powerful produced by Perkins, nears the end of the assembly line at the Fletton factory in Peterborough, England. This engine is designed for use in trucks and large farm and construction machinery. At left, a quality control inspector carefully examines an engine cylinder bore at the Eastfield factory. Middle picture, approximately 228,000 engines such as those shown here in protective wrappings were shipped from Perkins' U.K. factories in 1977, 85 per cent of them for export. At right, the Perkoil III used for testing engines in marine applications.

Development has started on a three-cylinder version and a larger four-cylinder engine which will provide the forklift market with a complete diesel engine range of 40 hp to 80 hp. Perkins anticipates this market will grow by eight per cent annually, with the bulk of the growth in developing countries.

The Basis for Growth in Developing Countries

Continuing development and strengthening of the world-wide network of Perkins distributors and dealers is vital in maintaining a position of leadership in diesel engines. Through its own sales and marketing companies and its Associates and licensees, the Engines Group serves the needs of 23 countries. In 130 other countries, effective marketing, after-sales service and parts supply are provided by national distributors who operate their own dealer network. These various channels of distribution and service ensure the reliable operation of the four million Perkins engines currently in service.

The availability of Perkins world-wide service and parts support, and the adaptability of Perkins engines to a wide range of applications are major factors influencing original equipment manufacturers to install Perkins engines. These factors are of particular significance in developing countries where mechanization projects involving diesel-powered agricultural, construction and industrial machines provide the opportunity to standardize on one make of engine and thus simplify servicing and parts requirements.

In many of the developing countries the growing demand for diesel engines is encouraged by the favourable price of diesel fuel compared to gasoline. Operators also are attracted to the diesel engine because of its fuel economy and its broad spectrum of uses.

World Agriculture in Perspective

World production of wheat, feed grains and rice for the 1977/78 crop year will be the second largest on record. Current estimates are 1,300 million metric tons, 33 million metric tons below the record of the previous year.

Based on latest estimates, wheat and feed grain production is forecast at 1,065 million metric tons or 39 million metric tons below the record of last year. Milled rice production, forecast at 235 million metric tons, is expected to be about three per cent above last year.

Early in the crop year, most official estimates indicated a further build-up in stocks but current estimates are that world production and consumption will be essentially in balance. Thus, carry-over stocks at the end of the 1977/78 season will be close to last year's level.

Regional Variations in Production

The United States produced a near-record wheat crop and a record feed grain crop in 1977. A severe shortage of subsoil moisture at the beginning of the growing season in much of the major wheat and corn producing areas was offset by subsequent timely rainfall and generally favourable growing conditions.

Canadian production of wheat and feed grain, however, was sharply below last year as a result of reduced acreage and widespread drought conditions early in the year. This was followed by excessive moisture which delayed harvesting and reduced grain quality below normal.

In Western Europe, the severe drought of 1976 was broken in the fall of that year and a prolonged period of rains replenished moisture reserves. Consequently, crop production in 1977 was of record proportions but quality was reduced by inclement weather during the harvest period.

Eastern Europe experienced a difficult harvest and crop production is estimated to be at the 1976 level.

Wheat and feed grain production in the U.S.S.R. is currently estimated at 180 million metric tons or 15 per cent below the 1976 record. Excessive moisture delayed the harvest, reduced output and quality and is likely to result in larger than normal storage losses.

China is expected to import a record quantity of wheat to offset drought-reduced 1977 crops.

Although India experienced favourable monsoons for the third consecutive year, wheat and feed grain production is not expected to equal the record of 1976. Wheat stocks are high, however, and India has entered the export market.

Wheat and feed grain production in South Africa is expected to be somewhat lower than the excellent crops of 1976. In the countries of Northern Africa, many of which suffered from severe drought, production is down sharply.

Grain production in other areas of the Southern Hemisphere will be below 1976. Acreage of wheat is expected to be down sharply in Argentina as a result of low world prices. In Australia wheat plantings are at a record high but drought is expected to result in somewhat lower output than 1976. In Brazil growing conditions were less favourable than in 1976.

Stocks

Although wheat and feed grain production was a near-record in 1977, consumption also is expected to increase substantially and carry-over stocks will remain near the levels of a year ago. These high carry-over stocks are related directly to reduced consumption at the beginning of 1976 caused by inadequate carry-over stocks of 1975 and the subsequent large crop of 1976.

World consumption of wheat in 1976 did not match the increased production and the result was an increase of 40 million metric tons of carry-over stocks. However, if forecasts are realized for production of 381 million metric tons and consumption of 392 million metric tons for 1977, then carry-over stocks will be reduced by 11 million metric tons to a level of 85 million metric tons.

While world consumption of feed grain was constrained by inadequate supply in 1974 and 1975, the large 1976 crop permitted a sharp increase of 37 million metric tons in consumption and added almost 20 million metric tons to carry-over stocks. For the 1977/78 crop year current estimates of production and consumption indicate that year-end carry-over stocks may increase by seven or eight million metric tons to approximately 80 million metric tons. It should be noted, however, that this estimate of carry-over stocks assumes that U.S. feed grain consumption remains below 1972 and 1973 levels by 20 million metric tons.

1978 Outlook

If world weather patterns are near normal in 1978 and if the United States Government program to reduce wheat acreage is close to its 20 per cent objective, wheat stocks could decline to within 10 million metric tons of the scarce supply years. On the other hand, if the U.S. program were successful in reducing output by only 10 per cent and if adverse weather conditions resulted in a U.S.S.R. crop equal to the average of the three poorest years since 1971, then world wheat stocks would decline to the tight supply years, 1973-1975, and world consumption would be constrained.

The 1978 feed grain situation is difficult to assess because a relatively small shift in consumption or production could affect carry-over stocks significantly. For example, if world production in 1978 were to remain near that of 1977 and if U.S. consumption were to return to the levels of 1972 and 1973, carry-over stocks would be reduced to those of the tight supply years. Production also could be reduced if the U.S. Government decides to limit feed grain acreage in an effort to curtail production in 1978. On balance, some reduction in carry-over stocks of feed grain seems likely by the end of the 1977/78 crop year.

Therefore, any combination of events in the 1978/79 crop year, such as unfavourable weather or government actions, which caused a decline of approximately 30 million metric tons in carry-over stocks of wheat and feed grains would reduce supply to the scarcity levels of 1973-1975.

Longer-Term Outlook

In the longer term, agriculture will be under pressure to produce the food necessary to meet the needs of a world population which is growing at an annual rate of 1.8 per cent. World population, now at 4.1 billion, will reach 4.5 billion by 1982.

The forecasted growth in demand for wheat, feed grain and rice requires that production increase at an annual rate of 30 million metric tons in order to maintain the 1960 to 1976 trend in consumption. This means 1982 production must increase to 1,462 million metric tons, or 162 million metric tons more than in 1977.

A more conservative estimate may be derived by assuming per capita consumption will remain static at the average of the last six years (1972-77). On this basis the world's grain requirement in 1982 would be 1,425 million metric tons or 125 million metric tons above the 1977 estimate.

During the period 1972-77, world production of wheat, feed grains and rice increased by 150 million metric tons and harvested area increased by 51 million hectares, with the United States and the U.S.S.R. contributing 46 per cent.

In the United States, where yields are triple those of the developing countries, the harvested area increased by 13.3 million hectares or 26 per cent of the world's increase. The United States achieved its increase by bringing under cultivation land which had been taken out of production by government policy in the 1960's. Therefore, a further large increase in harvested area in the United States is most unlikely and, in the short term, the area may well decline.

The U.S.S.R. added 10 million hectares or 20 per cent by bringing new land under cultivation and there is little possibility of a repeat performance through 1982.

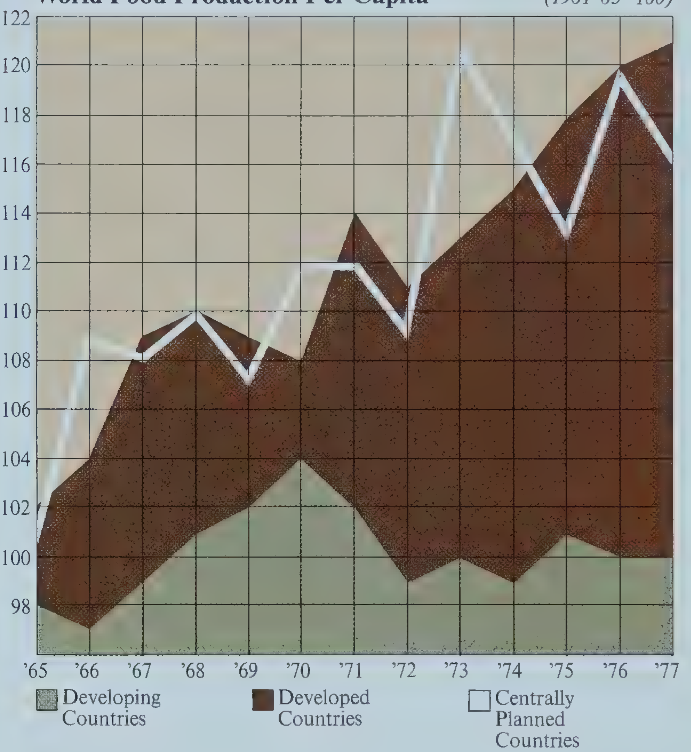
Canada, Australia, Eastern and Western Europe, and China are unlikely to exceed the level of harvested area achieved in the last five years.

In Argentina and Brazil, we anticipate significant additions to harvested areas but these would be insufficient to ensure the world's requirements of food.

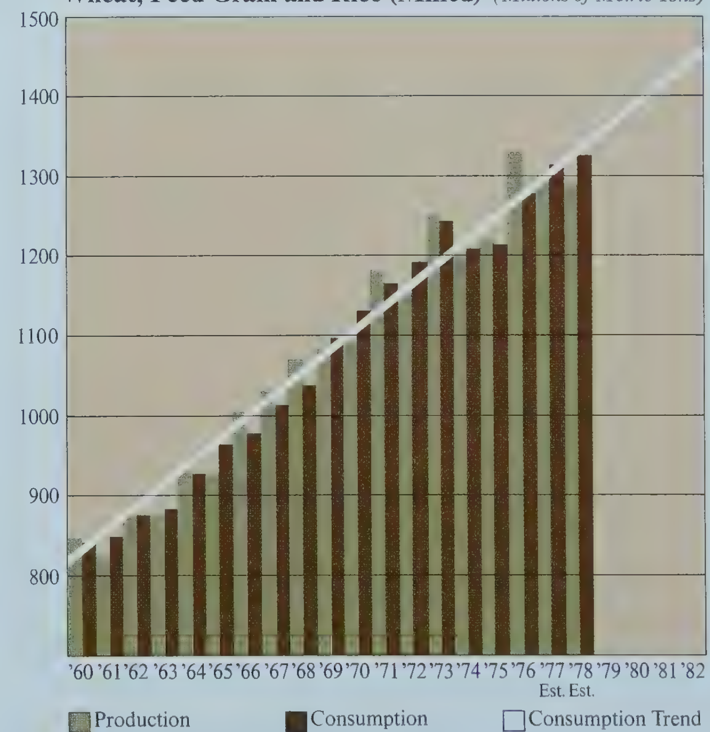
To achieve the more conservative estimate of a production increase of 125 million metric tons through 1982 will require the addition of some 50 million hectares of harvested land. It is clear that the developing countries must provide much of the increase and to do so they will require large inputs of farm machinery, fertilizers, improved technical and management skills and food processing and distribution functions.

Although the large crops of 1976 and 1977 have tended to diminish the urgency with which the world's food problem is viewed, achieving the required 1982 production level remains a formidable task.

World Food Production Per Capita *(1961-65=100)*



World Grain Production
Wheat, Feed Grain and Rice (Milled) *(Millions of Metric Tons)*



Management Discussion and Analysis of Summary of Operations

Tax Relief Associated With Inventory

One of the more serious problems facing companies today is the requirement to finance the replacement of inventories at cost levels that are continually rising as a result of inflation. In recent years, several countries have recognized the liquidity strains imposed on business because of these inflationary forces and have granted some measure of tax relief through legislation. A recent example is the introduction by the Canadian Government in 1977 of an allowance, in calculating taxable income for the fiscal year, equal to three per cent of the opening value of qualifying inventories.

In some of the countries (including Canada) where such legislation has been introduced, the inventory tax allowance is permanent in nature and not subject to reversal or repayment. The related tax reduction accordingly can be reflected as a decrease in income tax expense for the year and net income would improve accordingly.

A somewhat different situation prevails in the United Kingdom. Under the present United Kingdom inventory tax relief legislation, the tax reduction is based on the total amount by which the value of inventories has risen during a fiscal year. There is, however, a provision in the present United Kingdom legislation that provides for reversal or "claw back" of the allowances in later years to the extent that inventories may be reduced because of lower business levels or lower costs.

While any such reduction in future inventory levels and/or costs would seem unlikely in the case of an ongoing business for which some basic or minimum level of inventories would have to be maintained, under Canadian and U.S. accounting principles the temporary inventory tax relief currently granted in the United Kingdom is nevertheless required to be deferred rather than credited to tax expense for the year.

During the five years ending October 31, 1977, Massey-Ferguson companies in the United Kingdom have had the benefit of cumulative tax reductions aggregating $47 million as a result of inventory tax relief allowances. This amount is carried as a current tax deferral on the balance sheet (deducted in arriving at the amount shown for prepaid income taxes, net in note 4 to consolidated financial statements), rather than being reflected in income by way of a reduction in income tax expense.

In addition, there remains available a further $100 million of stock appreciation relief to be applied as a reduction against future United Kingdom taxable income. At current United Kingdom tax rates of 52 per cent this would result in a further deferred tax of $52 million.

In his 1977 budget statement, the United Kingdom Chancellor of the Exchequer indicated that consideration was being given to the development of a more permanent form of inventory tax relief, under which it is unlikely that any substantial part of a company's deferred tax liability related to inventory tax allowances would ever have to be paid. On the assumption that this approach is taken in the United Kingdom, the Company expects that a substantial portion of the deferred tax balance of $47 million will never become payable and could then be considered to be shareholders' equity. The specific accounting will have to await the actual regulations.

Sales

Sales for 1977 increased by 1.2 per cent over the prior year compared with a 10.3 per cent increase in 1976 over 1975. This reflects the levelling of the boom conditions of the mid-1970's. Farm incomes weakened and grain prices in particular were much lower. Farm machinery sales at $1,961 million were down two per cent from 1976. This was offset partially by a slight pickup in industrial and construction machinery and a 14 per cent growth in engines.

North American sales were down sharply in September and October and for the full year were $840 million compared with $855 million in 1976 and $746 million in 1975.

Sales in Europe of $1,053 million increased 18 per cent over 1976, (which was nine per cent above 1975) reflecting the sale of higher-value products such as cab tractors.

In Asia, sales were $167 million, a decrease of 19 per cent, with major declines in Iran and Turkey. In Iran, sales dropped by $29 million in 1977 because heavy shipments of tractors in the second half of 1976 met the market requirements for 1977. In Turkey, a serious balance-of-payments problem resulted in a lack of exchange to cover orders, and sales dropped by $24 million.

Latin American sales of $456 million were down 17 per cent, reflecting the adjustment in Brazil of dealer inventory levels. In Argentina, however, sales increased by 50 per cent.

Sales increased by 13 per cent in Africa.

Cost of Sales

While 1977 sales increased by 1.2 per cent, cost of sales increased by 4.3 per cent over 1976 levels to reach 78.8 per cent of sales in 1977 compared to a 10-year low of 76.4 per cent in 1976 and 77.1 per cent in 1975. In addition to prolonged strikes at some of our plants in the United Kingdom and at the plants of some of our important suppliers in the United Kingdom, as well as work stoppage in our French plants, the Company experienced high costs associated with the introduction of new products.

Depreciation and amortization are significant factors in cost of sales. As old facilities are retired and replaced with new ones, the impact of inflation can be seen in this charge which totalled $68.6 million in 1977 versus $54.3 million in 1976 and $45.4 million in 1975. This is partially offset by more efficient operating costs.

Because price controls are still in effect in many countries in which Massey-Ferguson operates, price increases in 1977 were generally insufficient to permit full recovery of these higher costs. This factor caused a further deterioration of the cost of sales.

Expenses

Marketing, General and Administrative Expenses for 1977 of \$332.4 million increased to 11.8 per cent of sales versus 11.1 per cent in 1976 and 10.7 per cent in 1975. This reflects increasingly competitive market conditions, particularly in North America, additional marketing costs to launch new products, and the growing lag between inflationary expense increases and pricing.

Engineering and Product Development Expenses at 2.4 per cent of sales continue at approximately the 2.2 per cent level of 1976 and 1975.

Interest costs have grown disproportionately to other expenses and at \$151 million were 5.4 per cent of sales in 1977 compared with 3.6 per cent in 1976 and 3.9 per cent in 1975. In countries where inflation rates are high, interest rates also have been excessive; for example, interest rates have reached 33 per cent a month in Argentina. High levels of inventories and in some countries compulsory import deposits have resulted in a significant growth in borrowing and hence in short-term interest costs which were \$37.6 million higher than 1976 and \$26.0 million higher than 1975. Long-term interest continues to increase as lower-rate loans are replaced by those bearing higher interest rates. The new 9¾ per cent convertible subordinated notes had little influence on interest expense in 1977 since they were issued in September, 1977.

Miscellaneous Income includes profit on disposal of capital assets of \$2.2 million in 1977 compared with \$0.6 million in 1976 and \$2.2 million in 1975. The 1977 disposals occurred largely in France, the United Kingdom and Canada.

The tax rate of 37 per cent in 1977 compares with 36 per cent in 1976 and 35 per cent in 1975. The relationship between income taxes and pre-tax profits can be significantly affected by the varying rates of tax applicable to taxable income of subsidiary companies and by year-to-year fluctuations in the contribution of each subsidiary to consolidated income.

The finance companies' portfolios continued to grow and income from this source rose to \$8.5 million from \$6.4 million in 1976 and \$4.5 million in 1975.

The Company's equity in Associate Companies' income increased to \$5.1 million from \$3.3 million in 1976 and \$4.5 million in 1975. Income in 1976 was affected adversely by large devaluations in Spain and Mexico, which are the main sources of Associate Company income. The Mexican peso strengthened in 1977 while the Spanish peseta suffered a further 18.4 per cent devaluation.

Financing

Through the issue in Canada of preferred shares during 1975 and 1976, \$100 million of equity was obtained. Additional equity to support the balance sheet was desirable, but the wide spread in 1977 between the market price of a common share (\$16/20) and its book value (close to \$40) made an equity issue unattractive. A preferable approach was an issue as close to equity as possible.

Therefore, in 1977 agreements were completed with certain U.S. institutions to provide \$297 million long-term borrowing to cover the major part of our 1977 and 1978 needs. Convertible subordinated notes amounting to \$147 million and maturing in 1992 were sold in September, 1977, and \$150 million of senior notes were sold in November, 1977 after the year-end closing. Both categories of notes are issued by Massey-Ferguson (Delaware) Inc., a wholly owned subsidiary of Massey-Ferguson Limited, and are unconditionally guaranteed by the parent company.

One of the main features of the notes issued in September, 1977 is that noteholders' rights are subordinate to the rights of other creditors of Massey-Ferguson (Delaware) Inc., as well as to the rights of other creditors of subsidiaries benefiting from Massey-Ferguson Limited guarantees.

The convertible notes may be exchanged for common shares of Massey-Ferguson Limited at an initial price of U.S. \$45 a share until 1982, rising thereafter to U.S. \$55 a share until maturity.

Auditors' Report

To the Shareholders of Massey-Ferguson Limited:

We have examined the consolidated balance sheets of Massey-Ferguson Limited as at October 31, 1977 and 1976, and the consolidated statements of income and retained earnings and changes in financial position for the years then ended. We have also examined the combined statements of assets and liabilities of the Finance Subsidiaries of Massey-Ferguson Limited as at October 31, 1977 and 1976, and the combined statements of income and retained earnings for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly (a) the consolidated financial position of Massey-Ferguson Limited as at October 31, 1977 and 1976 and the results of its consolidated operations and the changes in its consolidated financial position for the years then ended, and (b) the combined assets and liabilities of the Finance Subsidiaries as at October 31, 1977 and 1976 and the results of their operations for the years then ended, all in accordance with generally accepted accounting principles applied on a consistent basis during the period.

Clarkson, Gordon & Co

Toronto, Canada
December 15, 1977.

Chartered Accountants.

Consolidated Statements of Income and Retained Earnings

Massey-Ferguson Limited (Incorporated under the Laws of Canada)
Years ended October 31, 1977 and 1976

(Thousands of U.S. Dollars)		1977	1976
Income	**Net Sales** *(Notes 1(c) and 9(a))*	$2,805,262	$2,771,696
	Costs and Expenses:		
	Cost of goods sold	2,209,708	2,117,514
	Marketing, general and administrative expenses	332,418	308,738
	Engineering and product development expenses *(Note 1(f))*	67,457	60,571
	Interest on long-term debt *(Note 9(d))*	56,388	43,593
	Other interest (net) *(Notes 9(d) and 9(e))*	94,593	56,993
	Net exchange losses *(Note 9(d))*	22,299	24,007
	Minority interest	2,112	1,145
	Miscellaneous income	(10,283)	(10,242)
		2,774,692	2,602,319
	Profit before Income Taxes and Items Shown Below	30,570	169,377
	Income taxes *(Notes 1(h) and 4)*	11,387	61,178
	Profit before Items Shown Below	19,183	108,199
	Equity in net income of finance subsidiaries *(Note 1(a))*	8,487	6,399
	Equity in net income of Associate Companies *(Note 1(d))*	5,050	3,316
	Net Income for the Year	$ 32,720	$ 117,914
	Income per Common Share *(in U.S. Dollars)* (After Dividends on Preferred Shares)	$ 1.26	$ 6.04
Retained Earnings	**Balance at Beginning of Year**	$ 525,997	$ 435,667
	Net income for the year	32,720	117,914
	Deduct:		
	Dividends *(Note 6(a))*	(29,140)	(25,474)
	Expenses relating to issue of preferred shares		(2,110)
	Balance at End of Year	$ 529,577	$ 525,997

(See accompanying Notes to Consolidated Financial Statements)

Consolidated Balance Sheets

Massey-Ferguson Limited
October 31, 1977 and 1976

(Thousands of U.S. Dollars)

Assets

	1977	1976
Current Assets:		
Cash	$ 12,575	$ 6,960
Receivables *(Note 2)*	328,312	387,263
Products sold to North American dealers under deferred floor plan arrangements *(Note 1(c))*	214,110	170,514
Inventories, valued at the lower of cost or net realizable value—		
Raw materials and work in process	584,088	514,616
Finished goods	551,862	452,207
Total Company inventories	1,135,950	966,823
Prepaid expenses and other current assets *(Note 4)*	80,797	83,655
Total Current Assets	1,771,744	1,615,215
Investments:		
Wholly owned finance subsidiaries, at equity in net assets *(Note 1(a))*	106,451	63,987
Associate Companies *(Note 1(d))*	76,410	69,418
Other	12,093	8,736
	194,954	142,141
Fixed Assets, at cost *(Notes 1(e) and 3)*	1,044,680	919,835
Less accumulated depreciation and amortization	450,596	399,851
	594,084	519,984
Other Assets and Deferred Charges *(Note 9(f))*	33,390	27,805
	$2,594,172	$2,305,145

On behalf of the Board:
John A. McDougald, *Director*
Albert A. Thornbrough, *Director*

		1977	1976
Liabilities	**Current Liabilities:**		
	Bank borrowings	$ 249,238	$ 113,430
	Current portion of long-term debt	95,821	66,447
	Accounts payable and accrued charges	677,021	632,975
	Income, sales and other taxes payable	46,586	59,927
	Advance payments from customers	6,429	10,614
	Total Current Liabilities	1,075,095	883,393
	Deferred Income Taxes *(Note 4)*	76,639	70,994
	Long-Term Debt *(Note 8)*:		
	Bonds, debentures, notes and loans	565,211	595,808
	Less instalments maturing within one year	95,821	66,447
		469,390	529,361
	Convertible subordinated notes	147,000	
		616,390	529,361
	Minority Interest in Subsidiaries	19,447	18,376
Shareholders' Equity	**Shareholders' Equity:**		
	Share capital *(Note 7)*		
	Preferred Shares	100,136	100,136
	Common Shares	176,888	176,888
	Retained earnings (including retained earnings of unconsolidated finance subsidiaries: October 31, 1977 – $54,648; October 31, 1976 – $46,228) *(Note 6)*	529,577	525,997
		806,601	803,021
		$2,594,172	$2,305,145

(See accompanying Notes to Consolidated Financial Statements)

Consolidated Statements of Changes in Financial Position

Massey-Ferguson Limited
Years ended October 31, 1977 and 1976

(Thousands of U.S. Dollars)		1977	1976
Source of Funds	Net income for the year	**$ 32,720**	$117,914
	Add (deduct):		
	Depreciation and amortization	**68,647**	54,341
	Increase in deferred income taxes	**5,645**	26,641
	Minority interest	**2,112**	1,145
	Equity in earnings of finance subsidiaries in excess of dividends received	**(8,420)**	(6,368)
	Equity in earnings of Associate Companies in excess of dividends received	**(3,657)**	(2,287)
	Profit on disposal of fixed assets	**(2,214)**	(610)
	Funds from Operations	**94,833**	190,776
	Proceeds from long-term debt issues	**226,131**	160,279
	Proceeds on disposal of fixed assets	**6,227**	1,863
	Net proceeds from preferred share issue		58,830
	Total Funds Provided	**$327,191**	$411,748
Use of Funds	Additions to fixed assets	**$146,760**	$174,663
	Reduction in long-term debt	**139,102**	83,256
	Investments in Associate Companies and finance subsidiaries	**37,379**	13,245
	Dividends	**29,140**	25,474
	Increase in other assets and deferred charges	**5,585**	7,267
	Increase in other investments	**3,357**	629
	Reductions in minority interest (including $662 of dividends in 1977, $962 in 1976, paid by subsidiary companies)	**1,041**	1,088
	(Decrease) increase in working capital as set out below	**(35,173)**	106,126
	Total Funds Used	**$327,191**	$411,748
Changes in Elements of Working Capital	**Working Capital at Beginning of Year**	**$731,822**	$625,696
	Current assets—increase (decrease):		
	Cash	**5,615**	(13,147)
	Receivables	**(58,951)**	63,404
	Products sold to North American dealers under deferred floor plan arrangements	**43,596**	9,448
	Company inventories	**169,127**	88,197
	Prepaid expenses and other current assets	**(2,858)**	11,452
		156,529	159,354
	Current liabilities—(increase) decrease:		
	Bank borrowing and current portion of long-term debt	**(165,182)**	37,665
	Accounts payable and accrued charges	**(44,046)**	(100,012)
	Income, sales and other taxes payable	**13,341**	9,280
	Advance payments from customers	**4,185**	(161)
		(191,702)	(53,228)
	Net (Decrease) Increase in Working Capital	**(35,173)**	106,126
	Working Capital at End of Year	**$696,649**	$731,822

(See accompanying Notes to Consolidated Financial Statements)

Notes to Consolidated Financial Statements

Years ended October 31, 1977 and 1976 *(in U.S. Dollars)*

1. Summary of Significant Accounting Policies

The accounting policies followed by the Company are those that are generally accepted in Canada. They are also in conformity, in all material respects, with accounting policies generally accepted in the United States.

(a) Basis of Consolidation

The accompanying consolidated financial statements consolidate the accounts of all subsidiary companies except wholly owned finance subsidiaries, the combined statements of which are set out separately (see page 32). The investment in these subsidiaries is carried in the Consolidated Balance Sheets at the equity in their net assets and their earnings have been included in the Consolidated Statements of Income. The Company considers that this basis of presentation is more informative than full consolidation since (a) it affords a basis of comparison with other major companies in the industry, the larger of which are U.S. based and do not consolidate their finance subsidiaries, (b) it recognizes that these subsidiaries' operations are financed on a different basis than manufacturing and trading operations and that, in North America (which accounts for 64 per cent of the combined finance subsidiaries' assets), there are substantially greater restrictions on the transfer of assets from the finance companies, and (c) it avoids the implication that the concept of working capital may be appropriately applied to the finance companies' operations. By way of supplementary information, summarized balance sheets at October 31, 1977 and 1976 and summarized statements of income for the years then ended are set out on page 34 to show the over-all position if the accounts of the finance subsidiaries had been consolidated.

(b) Exchange Translation

The statements of companies whose accounts are maintained in other currencies have been translated into U.S. dollars substantially as follows: inventories carried at cost (including products sold to North American dealers under deferred floor plan arrangements), non-current assets, certain prepaid expenses and deferred income taxes, and related charges or expenses, at historical rates of exchange; all other assets and liabilities, at exchange rates prevailing at the end of the year; income and expenses (other than those indicated above), at average rates for the year. Translation gains or losses are included in income.

(c) Sales and Settlement Accounting

Sales are recorded at the time of shipment to distributors, dealers and other customers, except in the case of transactions with North American dealers under deferred floor plan arrangements.

These latter transactions are accounted for by using the settlement accounting method. Under this method North American sales of farm, industrial, construction and recreation equipment, and the related income, are not reflected in the accounts until settlement is received from the dealer. Amounts receivable from North American dealers under deferred floor plan arrangements are classified as a separate item on the Consolidated Balance Sheets and are carried at the lower of cost or net realizable value of the finished goods concerned rather than at selling price.

This method is considered more appropriate for transactions with North American dealers as the Company, following industry practice, finances the major portion of its dealer inventories by means of floor plan notes. These notes have terms extending up to one year or more, are for the most part interest-free, and settlement is not ordinarily received by the Company until the products are sold by the dealer. During this period the Company occasionally grants price reductions to dealers on slow-moving goods, and may also absorb certain other costs prior to settlement from the dealer.

Outside North America, the majority of dealers provide their own financing and pay for goods delivered in accordance with normal trade terms.

(d) Investments in Associate Companies

Investments in Associate Companies (in which the Company owns 50 per cent or less of the voting shares), where the Company exercises a significant influence over operating and financial policies, are accounted for by the equity method. Under this method, the Company's share of the net income of these Associate Companies is included in the Consolidated Statements of Income as earned rather than when realized through dividends. The investments are carried in the Consolidated Balance Sheets at original cost plus the Company's share of undistributed earnings since acquisition.

Investments in Associate Companies where the Company does not exercise a significant influence over operating and financial policies are carried at cost (1977—$7,618,000; 1976—$4,769,000).

(e) Fixed Assets

Additions to fixed assets are recorded at cost. Depreciation of facilities is provided on a straight-line basis in substantially all of the companies, at rates which are designed to write off the assets over their estimated useful lives as follows:

Buildings	10 to 50 years
Machinery and equipment	3 to 10 years

Production tooling for new products and for major product changes is generally amortized over a three-year period commencing with the first year of full utilization of the tooling concerned; tooling for replacements and minor production changes is charged against income at the time of purchase.

(f) Research and Development Costs

Research and development costs, substantially all of which are included in Engineering and Product Development Expenses, are expensed as incurred (1977—$51,981,000; 1976—$50,531,000).

(g) Pensions
A substantial portion of the Company's employees are covered by government and Company pension plans. The costs of these plans are charged against income in the year premiums or funding requirements are payable. Past service costs in trusteed plans are generally being amortized and funded over periods of up to 25 years (see Note 5(d)).

(h) Income Taxes
The Company follows the deferred method of tax allocation in accounting for income taxes. Under this method, timing differences between reported and taxable income (which occur when revenues and expenses recognized in the accounts in one year are taxed or claimed for tax purposes in another year) can result in deferred or prepaid taxes.

Investment tax credits are accounted for on the flow-through method.

The benefits of loss carry-forwards are generally not recognized until realized. The multinational nature of Massey-Ferguson's operations is such that, on a continuing basis, some subsidiaries are incurring losses (without recognition of the potential carry-forward tax benefits) at the same time that other subsidiaries are realizing the tax benefit of previous losses. On a consolidated basis these annually recurring tax recoveries are not considered to be extraordinary in nature and are accordingly reflected as a reduction of current income tax charges when realized.

Dividend payments from subsidiary and Associate Companies in a number of countries are subject to withholding and other foreign taxes at various rates and additional Canadian taxes may be payable in subsequent years in respect of certain future dividend remittances.

Provision is made for the related taxes on dividends anticipated in the future out of accumulated earnings. Of the balance of unremitted earnings included in consolidated retained earnings at October 31, 1977, a portion would not be subject to tax; the remainder (estimated at approximately $275,000,000 at October 31, 1977 and $259,000,000 at October 31, 1976) is part of the amount that has been re-invested on a long-term basis and such taxes have accordingly not been provided.

2. Receivables

(a) Receivables include amounts due from finance subsidiaries of $21,452,000 in 1977 and $13,049,000 in 1976.

(b) Receivables are shown net of the following provisions:

	1977	1976
Allowance for doubtful notes and accounts	$ 7,936,000	$18,419,000
Volume and performance bonuses, returns and other allowances	871,000	4,668,000
Unearned interest	1,697,000	1,330,000
	$10,504,000	$24,417,000

The decrease in the allowance for doubtful accounts resulted from a reduction of receivables in markets which carried relatively high allowances, from the collection of certain receivables which were substantially provided for at the end of 1976, and the sale of accounts, with related allowances, to Massey-Ferguson Finance AG (see note 1(a) to Combined Finance Subsidiaries' statements).

Approximately $3.5 million of volume and performance bonuses payable to dealers whose accounts were sold to Massey-Ferguson Finance AG have been included in accounts payable and accrued charges in 1977.

3. Fixed Assets

1977	Cost	Accumulated Depreciation and Amortization	Net
Land	$ 23,099,000		$ 23,099,000
Buildings	266,930,000	$ 93,226,000	173,704,000
Machinery and equipment	635,257,000	316,634,000	318,623,000
Production tooling	119,394,000	40,736,000	78,658,000
Total	$1,044,680,000	$450,596,000	$594,084,000

1976	Cost	Accumulated Depreciation and Amortization	Net
Land	$ 22,588,000		$ 22,588,000
Buildings	249,203,000	$ 83,694,000	165,509,000
Machinery and equipment	563,125,000	283,649,000	279,476,000
Production tooling	84,919,000	32,508,000	52,411,000
Total	$ 919,835,000	$399,851,000	$519,984,000

Depreciation, and amortization of production tooling charged to operations are as follows:

	1977	1976
Depreciation	$50,335,000	$39,922,000
Amortization	18,312,000	14,419,000
	$68,647,000	$54,341,000

4. Income Taxes

The Company's accounting policies with respect to income taxes are set out in Note 1(h). Prepaid and deferred income taxes are carried on the balance sheets as follows:

Prepaid income taxes, net ($20,243,000 in 1977 and $23,385,000 in 1976), resulting from the use of the settlement accounting method and other current timing differences between taxable and reported income, are grouped with Prepaid Expenses and Other Current Assets.

Deferred income taxes ($76,639,000 in 1977 and $70,994,000 in 1976), primarily resulting from capital cost allowances claimed for tax purposes in excess of depreciation and amortization recorded in the accounts, are shown separately.

The relationship between tax expense and pre-tax accounting income is affected by a variety of tax rates in the many countries in which the Company operates as well as by

investment, loss carry-forward and other tax credits. Income taxes shown in the Consolidated Statements of Income were decreased in 1976 due to utilization of investment tax credits of $5,030,000. In both years, income taxes were reduced by tax credits arising from prior years' losses which, net of other tax adjustments relating to prior years, amount to $2,346,000 in 1977 and $6,900,000 in 1976.

At October 31, 1977, certain companies had tax losses aggregating $31,689,000 (October 31, 1976—$29,767,000) available to be carried forward for which potential recoveries have not been recognized in the accounts. These loss carry-forwards expire as follows: 1978—$1,845,000; 1979—$1,781,000; 1980—$2,856,000; 1981—$4,133,000; 1982 and beyond—$21,074,000. At current tax rates, the tax recoveries, if realized, would amount to approximately $14,407,000 (1976—$13,100,000).

5. Contingent Liabilities, Commitments etc.

(a) The total contingent liabilities relating to notes receivable discounted and bills guaranteed etc., were $125,600,000 at October 31, 1977 ($92,600,000 at October 31, 1976).

(b) Under subscription agreements relating to short-term bank borrowings and senior and subordinated notes of the two North American finance subsidiaries, Massey-Ferguson Limited has agreed that it will ensure that assets are maintained in those companies in certain specified relationships with their indebtedness.

(c) Approved capital expenditure programs outstanding at the year-end were $153,000,000 including capital commitments of approximately $44,000,000 (1976—$188,000,000 including capital commitments of $65,000,000).

(d) Total pension expense including past service costs was $78,900,000 in 1977 and $74,600,000 in 1976. The actuarially computed value of vested benefits exceeded the market value of pension fund assets and balance sheet accruals by approximately $38,000,000 at October 31, 1977 ($31,000,000 at October 31, 1976). The total unfunded past service obligation was approximately $119,800,000 at October 31, 1977 ($104,000,000 at October 31, 1976). See note 1(g) regarding the basis of accounting for pension costs.

6. Dividends and Dividend Restrictions

(a) Dividends were declared as follows:

	1977	1976
Preferred Shares (Cdn. $2.50 per share annually)		
Series A	$ 3,914,000	$ 4,044,000
Series B (issued March 1, 1976)	5,867,000	3,056,000
Common Shares (Cdn. $1.08 per share in 1977, Cdn. $1.00 per share in 1976)	19,359,000	18,374,000
	$29,140,000	$25,474,000

(b) The long-term loan agreements of certain subsidiary companies contain restrictions on the payment of dividends to the parent company. In addition, agreements of the parent company relating to $150,000,000 of senior notes sold by Massey-Ferguson (Delaware) Inc. on November 10, 1977 (see Note 8(e)) contain limitations on the payment of dividends on both the preferred and common shares of Massey-Ferguson Limited which are more restrictive than previous limitations. Dividends on the preferred and common shares may not exceed $30,000,000 plus 75 per cent of consolidated net income earned after November 1, 1977, or, minus 100 per cent in the case of a loss.

(c) Of consolidated retained earnings, $360,000,000 at October 31, 1977 ($349,000,000 at October 31, 1976) represents the Company's equity in profits of various subsidiaries and Associate Companies outside North America which have not been remitted to Canada. Transfers of earnings from such companies are generally subject to the approval of exchange control authorities, but permission to pay dividends, within reasonable and prudent financial limits as required for corporate purposes, is normally obtainable.

(d) Under the Canadian Government's anti-inflation program, dividends to the Company's common shareholders during the year ending October 13, 1978 may not exceed $1.14 (Canadian) per share.

7. Share Capital, Stock Options and Reservation of Shares

Share capital consists of the following:

Authorized—
3,998,500 Preferred shares of a par value of $25 (Cdn.) each
25,000,000 Common shares without nominal or par value.

Issued and Outstanding—

	1977	1976
$2.50 (Cdn.) Cumulative Redeemable Preferred Shares		
Series A 1,600,000 shares	$ 39,196,000	$ 39,196,000
Series B 2,398,500 shares	60,940,000	60,940,000
Common—18,250,350 shares	176,888,000	176,888,000

The Company is obligated to purchase in the open market up to 16,700 preferred shares per month if the price falls below $25 (Cdn.) per share, up to a maximum of 200,400 shares in any one year. To October 31, 1977, the Company had purchased and cancelled 1,500 Series B shares under this obligation.

Commencing five years after issue (1975 in the case of Series A, and 1976 in the case of Series B), the preferred shares may be redeemed at a premium of $1.25 (Cdn.), such premium reducing by $0.25 (Cdn.) per share annually for five years and thereafter at par.

There are reserved for possible future issue 215,350 common shares for employee stock options and 3,267,000 common shares for conversion of 9¾% convertible subordinated notes. (No stock options were outstanding at October 31, 1977 or 1976.)

8. Long-Term Debt

Repayable in currency of country indicated unless otherwise shown; maturity dates are for fiscal years ending October 31.

(a) Bonds, debentures, notes and loans:	1977	1976
	(Thousands of U.S. Dollars)	
Massey-Ferguson do Brasil S.A. (Brazil):		
Bank Loans maturing 1978-84 repayable in U.S. dollars bearing interest at ¾%—2% above Eurodollar interbank rate	$ 29,436	$ 31,100
Motores Perkins S.A. (Brazil):		
Bank Loans maturing 1978-83 repayable in U.S. dollars bearing interest at ⅞%—2% above Eurodollar interbank rate	13,554	16,000
Massey-Ferguson Industries Limited (Canada):		
5⅞% Secured Promissory Note maturing 1978-85	9,933	12,734
Massey-Ferguson GmbH (Germany):		
7½% Bank Loan maturing 1978-79	11,908	16,680
Secured Purchase Loan maturing 1977 discounted at 10% per annum		11,373
Massey-Ferguson-Hanomag Inc. & Co. (Germany):		
Bank Loan maturing 1977 bearing interest at 4¼% above Deutsche Bundesbank discount rate		14,595
Massey-Ferguson Holdings Limited (United Kingdom):		
7½% Loan Stock maturing 1978-92	18,317	18,355
Bank Loans maturing 1978-84 bearing interest at various London bank market rates	63,919	33,133
Massey-Ferguson Inc. (U.S.A.):		
8.55% Promissory Notes maturing 1979-84	30,900	30,900
5⅞% Subordinated Notes maturing 1978-84	15,120	16,680
Perkins Diesel Corporation (U.S.A.):		
Capitalized value of property and equipment lease terminating 1993 discounted at 10%	27,117	27,799
General Purpose Loans (*Repayable in U.S. Dollars*):		
9% Sinking Fund Debentures maturing 1978-82	11,000	12,500
9½% Debentures maturing 1991	75,000	75,000
9¾% Sinking Fund Debentures maturing 1978-82	36,000	38,000
9% Bank Loan maturing 1979	10,523	10,161
Bank Loans maturing 1978-80 bearing interest at ¾%—1½% above Eurodollar interbank rate	55,000	
Promissory Note maturing 1978-80 bearing interest at 1⅛% above Eurodollar interbank rate	13,889	19,444
Promissory Notes maturing 1978 bearing interest at 1% above Eurodollar interbank rate	15,000	15,000
Other Long-Term Debt (*Note 8(d)*)	89,195	109,694
Bank Borrowings (*Note 8(e)*)	39,400	86,660
	$565,211	$595,808
(b) Convertible subordinated notes (*Repayable in U.S. Dollars*)	$147,000	

In September 1977, Massey-Ferguson (Delaware) Inc., issued $147,000,000 9¾% Convertible Subordinated Notes guaranteed by Massey-Ferguson Limited due 1988-1992. These notes are convertible into common shares of Massey-Ferguson Limited at an initial price of U.S. $45.00 per share rising to U.S. $55.00 per share in 1982. There is no dilution of 1977 earnings per common share as a result of this convertible feature.

(c) Sinking fund requirements and debt maturities during the next five years are as follows: 1978—$95,821,000; 1979—$96,898,000; 1980—$64,366,000; 1981—$33,983,000; 1982—$57,535,000.

(d) Other long-term debt includes long-term loans each of which is less than $10,000,000.

(e) Subsequent to the year-end (on November 10, 1977) Massey-Ferguson (Delaware) Inc. issued U.S. $150,000,000 of 9% senior notes, guaranteed by Massey-Ferguson Limited, due 1983-1997. Current bank borrowings amounting to $39,400,000 were reclassified as long-term debt at October 31, 1977 since they were subsequently repaid by means of a portion of the proceeds of the senior notes issued after the fiscal year end.

9. Other Information

(a) Because the Company's manufacturing and marketing operations are highly integrated, it is the opinion of the Directors that the Company has only one line of business. Within this line of business, sales by major categories in millions of U.S. dollars were as follows:

	1977	1976
Farm machinery	**$1,960.5**	$2,000.6
Industrial and construction machinery	**398.3**	380.4
Engines	**386.9**	339.7
Other products	**59.6**	51.0
Net sales	**$2,805.3**	$2,771.7

(b) Quarterly condensed income statements for 1977 in millions of U.S. dollars are as follows (unaudited):

	Quarter 1	2	3	4
Net sales	**$491.4**	**$660.9**	**$733.4**	**$919.6**
Costs and expenses	**487.5**	**663.9**	**729.3**	**894.0**
Profit (loss) before income taxes and items shown below	**3.9**	**(3.0)**	**4.1**	**25.6**
Income taxes	**1.7**	**(0.2)**	**2.0**	**7.9**
Profit (loss) before items shown below	**2.2**	**(2.8)**	**2.1**	**17.7**
Equity in net income (loss) of:				
Finance subsidiaries	**1.1**	**1.8**	**2.2**	**3.4**
Associate Companies	**(0.2)**	**3.1**	**3.5**	**(1.4)**
Net income	**$ 3.1**	**$ 2.1**	**$ 7.8**	**$ 19.7**
Income per common share (In U.S. Dollars)	**$ 0.03**	**$(0.02)**	**$ 0.30**	**$ 0.95**

(c) The SEC in Accounting Series Release 190 has ruled that larger industrial companies registered with them must disclose selected replacement cost information in their annual 10-K statement (a copy of which is available upon request, see inside front cover) filed with the Commission. The Company's 10-K Report contains specific information with respect to replacement cost of inventories and productive capacity (generally buildings, machinery and equipment) and a discussion of the approximate effect which replacement cost would have had on the computation of cost of sales and depreciation expense for the year. Although the Company is concerned about the effect of world-wide inflation on its statements, it believes the information required by the SEC is of limited, if any, value because of the subjective judgments required in its preparation. This material is unaudited.

(d) Prior to 1977 the Company reported the currency devaluation impact related to U.S. dollar-denominated borrowings in Argentina and Brazil as interest expense rather than exchange loss. This manner of accounting was considered to be appropriate as exchange losses on dollar borrowings together with the relatively low interest cost of such borrowings were approximately equal to the interest cost of a comparable amount of local currency borrowings.

Following the adoption at the end of 1976 of Statement No. 8 of the U.S. Financial Accounting Standards Board setting out principles of accounting for translation of foreign currencies, the Company re-examined during 1977 all of its translation practices. It was concluded that it was more appropriate to report devaluation impacts related to dollar-denominated borrowings in Argentina and Brazil ($21 million in 1977 and $16 million in 1976) as exchanges losses. This method of presentation, which has no effect on net income, has been adopted in 1977 and the 1976 accounts have been reclassified on a comparable basis.

(e) Interest income of $47,547,000 in 1977 and $35,177,000 in 1976 has been deducted from Other Interest expense in the Consolidated Statements of Income.

(f) Other assets and deferred charges include housing loans of $153,000 to officers at October 31, 1977, ($181,000 at October 31, 1976).

(g) Aggregate remuneration to persons who served as Directors and Officers of Massey-Ferguson Limited at anytime during the year was as follows:

Remuneration paid by:	18 Directors	18 Officers (4 Officers were also Directors)
Massey-Ferguson Limited (holding company)	$90,000	$ 892,000
Subsidiary companies—principally Massey-Ferguson Inc. (U.S.A.)	7,000	1,169,000
	$97,000	$2,061,000

Finance Subsidiaries

(Thousands of U.S. Dollars)

Combined Statements of Income and Retained Earnings

Years ended October 31, 1977 and 1976

	1977	1976
Revenue:		
Interest and finance fees (including income from affiliates of $25,877 in 1977 and $15,530 in 1976)	$ 69,473	$ 51,167
Discounts	4,601	3,936
	74,074	55,103
Expenses:		
Administrative expenses	13,568	10,784
Interest on long-term debt	15,121	11,397
Interest on short-term debt (including $98 paid to affiliates in 1977 and $54 in 1976)	27,217	19,693
Provision for doubtful accounts (recovery)	(357)	117
Net exchange losses	679	140
	56,228	42,131
Income before Income Taxes	17,846	12,972
Income taxes:		
Current	8,103	6,274
Deferred	1,256	299
	9,359	6,573
Net Income for the Year	8,487	6,399
Retained Earnings at Beginning of Year	46,228	39,860
	54,715	46,259
Deduct dividends on preferred shares	67	31
Retained Earnings at End of Year	$ 54,648	$ 46,228

Combined Statements of Assets and Liabilities

October 31, 1977 and 1976

	1977	1976
Assets:		
Cash	$ 5,734	$ 5,949
Receivables (*Note 2*)	933,115	619,448
Prepaid expenses	2,427	1,829
	$941,276	$627,226
Liabilities:		
Short-term notes payable—Banks	$295,547	$155,857
—Others	237,865	177,136
Due to affiliates	21,452	13,049
Dealer deposits	12,085	10,445
Accrued charges	8,492	7,628
Income taxes payable	1,054	636
Deferred income taxes	7,797	6,541
Long-term debt (*Note 3*)	250,533	191,947
	834,825	563,239
Equity of Massey-Ferguson Limited:		
Share capital	51,803	17,759
Retained earnings (*Note 3 (d)*)	54,648	46,228
	106,451	63,987
	$941,276	$627,226

(See accompanying Notes to Combined Finance Subsidiaries' Statements)

Notes to Combined Finance Subsidiaries' Statements

Years ended October 31, 1977 and 1976 *(in U.S. Dollars)*

1. Summary of Significant Accounting Policies

The accounting policies followed by the companies are those that are generally accepted in Canada. They are also in conformity, in all material respects, with accounting policies generally accepted in the United States.

(a) Basis of Presentation

The accompanying financial statements combine the accounts of Massey-Ferguson Finance Company of Canada Limited; Massey-Ferguson Credit Corporation (U.S.A.) and its finance subsidiary; Massey-Ferguson-Perkins Finance Company Limited (U.K.); Perkins Engines Finance Company Limited (U.K.); Massey-Ferguson Finance AG (Switzerland); MF Finanziaria S.p.A. (Italy) and Massey-Ferguson Finance (Australia) Limited.

During the year Massey-Ferguson Finance AG expanded its operations by the purchase of receivables from the German and French affiliates. A new finance subsidiary was formed in Italy under the name of MF Finanziaria S.p.A. to help finance domestic operations.

While the books of the United States finance subsidiaries are maintained, and their tax returns filed, on a modified cash basis of accounting, the accompanying financial statements incorporate adjustments to reflect the financial position of these subsidiaries on an accrual basis of accounting.

(b) Exchange Translation

The statements of companies whose accounts are maintained in other currencies have been translated into U.S. dollars substantially as follows: assets and liabilities at exchange rates prevailing at the end of the year; share capital at rates prevailing at the date of issue; revenue and expenses at average exchange rates during the year. Translation gains or losses are included in income.

(c) Finance Income

Interest and discounts are generally taken into income in declining amounts over the life of the contract on the basis of effective yield.

(d) Income Taxes

The companies follow the deferred method of tax allocation in accounting for income taxes.

(e) Classification of Assets and Liabilities

In accordance with industry practice, the assets and liabilities have not been classified as current or non-current.

2. Receivables

Receivables are shown net of the following provisions:

	1977	1976
Allowance for doubtful accounts	$ 6,381,000	$ 4,659,000
Unearned interest and discount	122,870,000	95,201,000
	$129,251,000	$ 99,860,000

At October 31, 1977 approximately 45 per cent (50 per cent at October 31, 1976) of the receivables, before provisions, mature beyond one year, as follows:

	1977	1976
13—24 months	$234,537,000	$171,313,000
25—36 months	142,073,000	113,075,000
37—48 months	72,424,000	56,152,000
over 48 months	28,028,000	18,481,000
	$477,062,000	$359,021,000

Receivables of the Canadian and U.S. finance subsidiaries include interest bearing wholesale receivables from North American dealers of $4,795,000 in 1977 and $9,005,000 in 1976.

Changes in receivables during the year were as follows:

Purchases 1977—$1,530,000,000 (1976—$1,038,000,000)
Liquidations 1977—$1,188,000,000 (1976—$794,000,000)

3. Long-Term Debt

(a) Repayable in currency of country indicated unless otherwise shown; maturity dates are fiscal years ending October 31.

	1977	1976
	(Thousands of U.S. dollars)	
Massey-Ferguson Finance (Australia) Limited:		
12% Senior Notes maturing 1979	$ 4,540	$ 4,908
Massey-Ferguson Finance Company of Canada Limited:		
9¾% Senior Debentures maturing 1978-80	4,219	5,408
Senior Note maturing 1980-82 repayable in U.S. dollars bearing interest at 1⅛% above Eurodollar interbank rate	10,000	
8½% Subordinated Notes maturing 1978-84	3,793	4,939
11⅛% Subordinated Notes maturing 1979-91	6,321	7,203
Subordinated Note maturing 1980-82 repayable in U.S. dollars bearing interest at 1⅝% above Eurodollar interbank rate	5,000	
MF Finanziaria S.p.A (Italy):		
Senior Note maturing 1980-82 bearing interest at 2⅜% above interbank rate	5,685	
Massey-Ferguson Credit Corporation (U.S.A.):		
5¼% Senior Notes maturing 1978-86	22,500	25,000
7⅝% Senior Notes maturing 1978-88	14,700	15,960
8¾% Senior Notes maturing 1983-87	35,000	
9¾% Senior Notes maturing 1979-91	35,000	35,000
8% Senior Debentures maturing 1979-93	20,000	20,000
5½% Subordinated Notes maturing 1978-80	2,600	3,600
7⅞% Subordinated Notes maturing 1978-88	3,675	3,990
9¼% Subordinated Notes maturing 1982-92	10,000	
10% Subordinated Notes maturing 1979-91	15,000	15,000
7¾% Subordinated Notes maturing 1977 repayable in Swiss Francs		7,189
Subordinated Notes maturing 1978 bearing interest at 1% above Eurodollar interbank rate in the amount of $10,000,000. Commitment fee ½% per annum on any unused portion	10,000	10,000
Short-term notes payable (*Note 3 (c)*)	42,500	33,750
	$250,533	$191,947
Senior	$194,144	$140,026
Subordinated	56,389	51,921
	$250,533	$191,947

(b) Instalments due and maturities during the next five years are as follows: 1978 — $16,144,000; 1979 — $22,471,000; 1980 — $30,305,000; 1981—$21,427,000; 1982—$32,827,000.

(c) Included under the classification long-term debt are short-term notes payable of $42,500,000 ($33,750,000 in 1976). Of this amount, $30,000,000 represents senior notes issued on November 18, 1977, which repaid short-term debt. The remainder consists of short-term notes which the Company intends to refinance on a long-term basis using a portion of the $33,750,000 of bank standby loans maturing 1978-80 bearing interest at ¾%-1⅝% above the Eurodollar interbank rate with a commitment fee of ½% per annum on any unused portion.

(d) In connection with the agreements relating to the long-term debt, $37,043,000 of the companies' retained earnings are restricted as to dividends.

Supplementary Information

Showing Financial Position and Results of Operations had the Finance Subsidiaries been Consolidated.
(See Note 1 (a) to Consolidated Financial Statements)

(Thousands of U.S. Dollars)

Summarized Statements of Income
Years ended October 31, 1977 and 1976

	1977	1976
Income:		
Net Sales	**$2,805,262**	$2,771,696
Revenue of finance subsidiaries (excluding inter-company)	**48,197**	39,573
	2,853,459	2,811,269
Costs and Expenses:		
Cost of goods sold, marketing, general, administrative, engineering and product development expenses	**2,607,370**	2,490,920
Interest on long-term debt	**71,509**	54,990*
Other interest (net)	**111,357**	67,960*
Net exchange losses	**22,978**	24,147*
Minority interest	**2,112**	1,145
Miscellaneous income	**(10,283)**	(10,242)
	2,805,043	2,628,920
Profit Before Income Taxes and equity in net income of Associate Companies	**48,416**	182,349
Income Taxes	**20,746**	67,751
Profit Before equity in net income of Associate Companies	**27,670**	114,598
Equity in net income of Associate Companies	**5,050**	3,316
Net Income for the Year	**$ 32,720**	$ 117,914

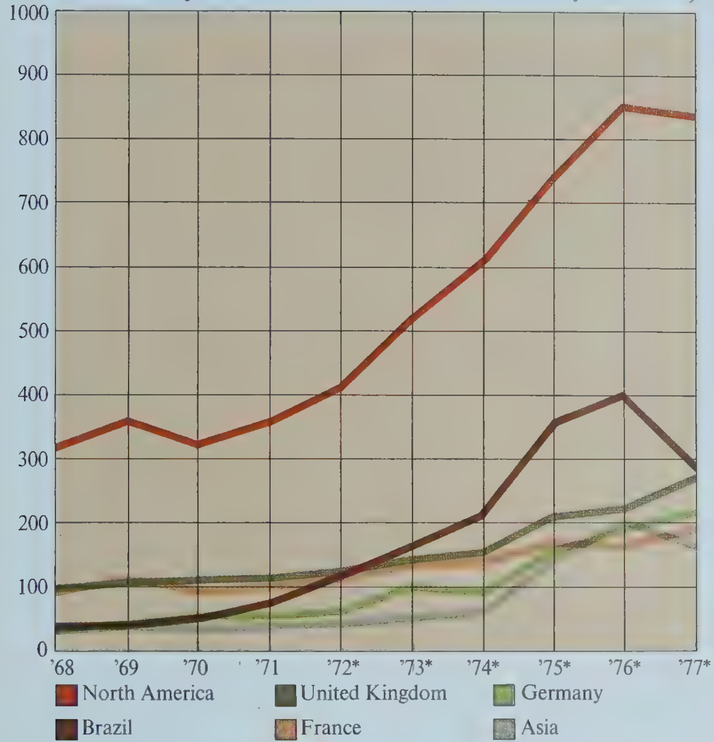
*Reclassified—see note 9(d) to the Consolidated Financial Statements.

Summarized Balance Sheets
October 31, 1977 and 1976

	1977	1976
Assets		
Current assets:		
Cash	**$ 18,309**	$ 12,909
Receivables	**840,906**	699,699
Products sold to North American dealers under deferred floor plan arrangements	**214,110**	170,514
Company inventories	**1,135,950**	966,823
Prepaids	**84,055**	77,395
Total Current Assets	**2,293,330**	1,927,340
Receivables due beyond one year	**398,487**	299,233
Investments	**88,503**	78,154
Fixed assets (net)	**594,084**	519,984
Other assets and deferred charges	**33,390**	27,805
Total Assets	**$3,407,794**	$2,852,516
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank borrowings and short-term notes payable	**$ 782,650**	$ 446,423
Current portion of long-term debt	**111,965**	79,929
Accounts payable and accrued charges	**685,762**	639,989
Income, sales and other taxes payable	**47,640**	60,563
Advance payments from customers and dealer deposits	**18,514**	21,059
Total Current Liabilities	**1,646,531**	1,247,963
Deferred income taxes	**84,436**	75,330
Long-term debt	**850,779**	707,826
Minority interest	**19,447**	18,376
Total Liabilities	**2,601,193**	2,049,495
Shareholders' Equity:		
Share capital		
Preferred shares	**100,136**	100,136
Common shares	**176,888**	176,888
Retained earnings	**529,577**	525,997
	806,601	803,021
Total Liabilities and Shareholders' Equity	**$3,407,794**	$2,852,516

Net Sales by Markets

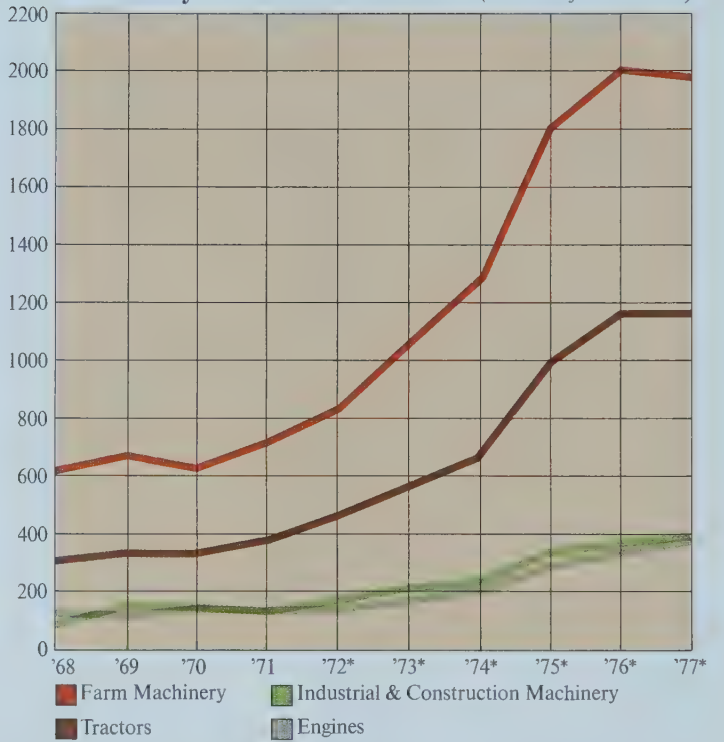
(Millions of U.S. Dollars)



*Settlement accounting: see page 27

Net Sales by Products

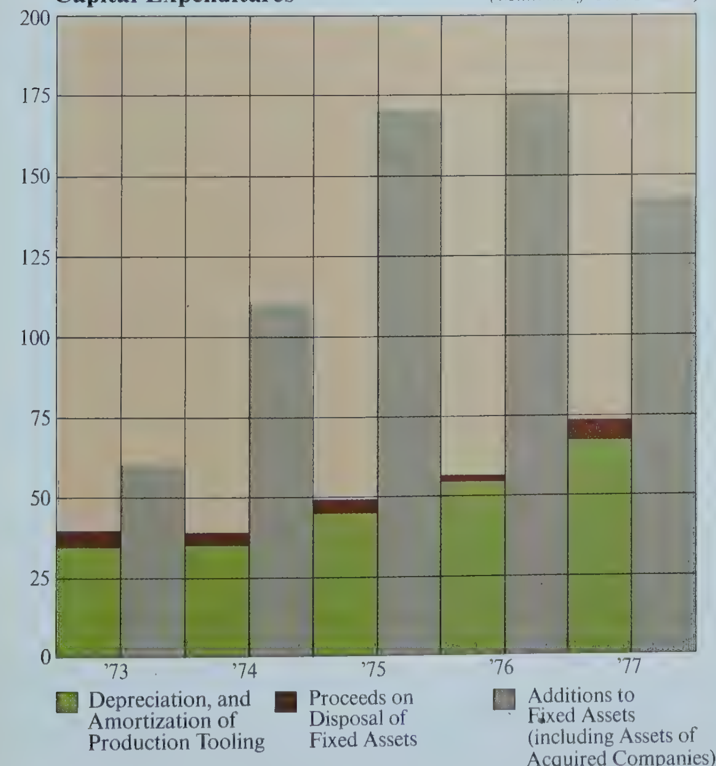
(Millions of U.S. Dollars)



*Settlement accounting: see page 27

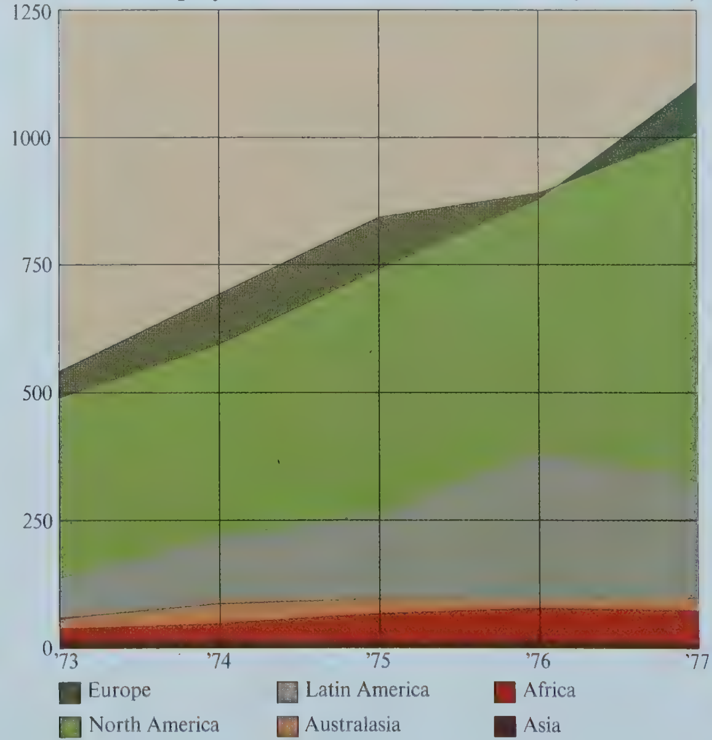
Capital Expenditures

(Millions of U.S. Dollars)



Geographical Distribution of Assets Employed

(Millions of U.S. Dollars)



Sales Statistics

(*Millions of U.S. Dollars*)

		1977* % of Total	1977* Amount $	1976* $	1975* $	1974* $	1973* $	1972* $	1971 $	1970 $	1969 $	1968 $
Net Sales By Markets	**North America**											
	Canada	**6.9**	**193.5**	213.2	184.0	142.4	100.2	85.8	69.1	65.2	79.9	66.8
	United States	**23.0**	**646.4**	641.9	562.4	471.6	422.2	330.8	293.6	247.8	285.9	256.6
	Total	**29.9**	**839.9**	855.1	746.4	614.0	522.4	416.6	362.7	313.0	365.8	323.4
	Europe											
	United Kingdom	**9.8**	**274.4**	225.4	211.6	157.5	146.8	128.9	116.2	114.3	106.1	95.5
	West Germany	**7.8**	**220.2**	183.1	157.5	88.0	102.6	62.4	56.4	57.8	47.5	35.6
	France	**6.7**	**189.3**	166.7	171.3	142.4	137.4	119.2	95.6	88.5	110.7	93.1
	Italy	**4.9**	**136.2**	119.1	89.5	59.3	54.5	45.7	39.4	41.8	37.3	30.9
	Scandinavia	**3.7**	**102.7**	90.4	86.9	56.1	45.6	42.3	41.3	39.7	34.7	29.7
	Benelux	**1.6**	**44.2**	39.8	33.3	19.0	15.8	10.5	9.3	11.6	8.4	7.6
	Austria	**0.8**	**21.9**	15.9	14.4	10.3	10.9	8.3	10.1	8.2	6.0	5.5
	Spain	**0.8**	**21.6**	19.3	18.6	16.7	10.2	8.3	4.3	8.1	9.0	4.1
	Other	**1.5**	**42.9**	30.5	30.4	17.5	16.1	14.3	13.9	14.0	11.5	10.5
	Total	**37.6**	**1,053.4**	890.2	813.5	566.8	539.9	439.9	386.5	384.0	371.2	312.5
	Latin America											
	Brazil	**9.9**	**277.1**	403.6	363.1	213.3	164.5	121.5	76.4	58.8	43.0	38.0
	Argentina	**3.9**	**109.2**	72.6	51.7	51.1	29.2	15.5	10.1	9.6	3.8	2.2
	Mexico	**0.7**	**20.9**	37.4	35.0	19.0	11.3	11.5	11.5	11.7	11.8	10.3
	Other	**1.7**	**48.3**	35.8	51.8	32.7	23.5	15.9	21.8	14.7	11.5	10.5
	Total	**16.2**	**455.5**	549.4	501.6	316.1	228.5	164.4	119.8	94.8	70.1	61.0
	Africa											
	South Africa	**2.7**	**76.5**	73.0	99.2	70.2	45.5	43.6	44.7	38.0	38.9	35.2
	Libya	**0.5**	**14.6**	14.8	28.9	19.0	11.4	7.7	4.2	0.6	3.4	2.9
	Sudan	**0.2**	**4.2**	10.5	3.5	1.7	0.3	4.8	0.5	2.6	1.4	1.1
	Other	**2.6**	**73.1**	51.3	63.9	36.1	26.4	21.5	27.5	27.5	24.3	19.0
	Total	**6.0**	**168.4**	149.6	195.5	127.0	83.6	77.6	76.9	68.7	68.0	58.2
	Asia											
	Turkey	**1.8**	**51.6**	76.4	44.3	24.4	29.0	16.2	8.1	3.9	10.0	12.2
	Pakistan	**0.8**	**21.1**	29.2	15.9	5.4	1.4	2.8	1.8	4.0	4.0	1.6
	Japan	**0.7**	**18.8**	17.2	23.4	12.5	7.7	6.5	7.4	5.4	4.3	3.3
	Iran	**0.4**	**10.1**	38.5	15.5	0.8	0.3	0.1	0.2	0.1	0.9	0.2
	Other	**2.3**	**65.2**	44.6	48.4	25.2	19.1	17.8	23.3	20.1	19.8	15.8
	Total	**6.0**	**166.8**	205.9	147.5	68.3	57.5	43.4	40.8	33.5	39.0	33.1
	Australasia	**4.3**	**121.3**	121.5	108.8	92.4	74.3	50.5	42.6	43.9	55.3	59.8
	Total	**100.0**	**2,805.3**	2,771.7	2,513.3	1,784.6	1,506.2	1,192.4	1,029.3	937.9	969.4	848.0
Net Sales By Quarters	First	**17.5**	**491.4**	498.5	437.4	339.6	253.9	177.7	197.6	172.8	158.8	153.3
	Second	**23.6**	**660.9**	713.6	604.1	434.1	359.2	287.8	256.4	249.7	248.2	224.3
	Third	**26.1**	**733.4**	667.5	645.2	457.5	380.5	327.4	249.4	235.9	265.7	207.4
	Fourth	**32.8**	**919.6**	892.1	826.6	553.4	512.6	399.5	325.9	279.5	296.7	263.0
	Total	**100.0**	**2,805.3**	2,771.7	2,513.3	1,784.6	1,506.2	1,192.4	1,029.3	937.9	969.4	848.0
Net Sales By Products	**Farm Machinery**											
	Tractors	**42.0**	**1,178.2**	1,171.5	1,020.5	674.4	575.5	474.2	396.0	331.0	339.6	317.8
	Grain Harvesting	**11.0**	**308.4**	359.8	340.1	248.3	202.6	143.3	128.0	99.4	148.4	135.6
	Hay Harvesting	**2.2**	**61.2**	52.8	51.2	39.6	37.1	28.5	29.3	26.1	30.1	26.2
	Other Products	**5.9**	**164.5**	179.1	163.8	146.8	115.0	79.3	69.4	62.2	66.5	64.1
	Parts	**8.8**	**248.2**	237.4	236.7	187.1	152.9	117.3	105.7	91.9	87.0	84.4
	Total	**69.9**	**1,960.5**	2,000.6	1,812.3	1,296.2	1,083.1	842.6	728.4	610.6	671.6	628.1
	Industrial & Construction Machinery											
	Machines	**11.8**	**332.1**	317.2	287.9	198.6	181.1	142.2	121.6	128.1	128.0	88.6
	Parts	**2.4**	**66.2**	63.2	66.9	40.9	32.0	25.2	16.6	16.4	14.5	9.5
	Total	**14.2**	**398.3**	380.4	354.8	239.5	213.1	167.4	138.2	144.5	142.5	98.1
	Engines											
	Engines	**18.3**	**512.9**	486.0	402.1	263.0	220.8	197.7	166.1	179.4	160.7	132.8
	Deduct MF	**(6.5)**	**(182.4)**	(200.4)	(168.7)	(104.8)	(87.1)	(80.0)	(59.1)	(57.8)	(55.8)	(48.2)
	Parts	**2.0**	**56.4**	54.1	61.4	46.6	39.2	32.6	28.1	23.8	22.2	18.1
	Total (Net)	**13.8**	**386.9**	339.7	294.8	204.8	172.9	150.3	135.1	145.4	127.1	102.7
	Other Products	**2.1**	**59.6**	51.0	51.4	44.1	37.1	32.1	27.6	37.4	28.2	19.1
	Total	**100.0**	**2,805.3**	2,771.7	2,513.3	1,784.6	1,506.2	1,192.4	1,029.3	937.9	969.4	848.0

*Settlement accounting: for 1972-77 only. See page 27. It is not practicable to restate individual years prior to 1972.

Financial Statistics

(Millions of U.S. Dollars except as indicated)			1977	1976	1975	1974*	1973
Summary of Operations	Net sales	$	**2,805**	2,772	2,513	1,785	1,506
	Gross profit	$	**596**	654	574	407	339
	Net expenses (excluding interest)	$	**414**	384	337	246	218
	Interest expense (net)	$	**151**	101	99	57	33
	Profit before taxes and other items	$	**31**	169	138	104	88
	Income taxes	$	**11**	61	48	37	36
	Finance subsidiaries and Associate Cos.	$	**13**	10	9	7	6
	Net income	$	**33**	118	99	74	58
	Dividends—Common	$	**19**	18	13	15	9
	—Preferred	$	**10**	7	2		
	Income retained	$	**4**	93	84	59	49
Financial Condition	Working capital	$	**697**	732	626	507	439
	Additions to fixed assets	$	**147**	175	170	110	60
	Depreciation and amortization	$	**69**	54	45	35	34
	Total assets	$	**2,594**	2,305	1,997	1,620	1,249
	Current ratio		**1.6**	1.8	1.8	1.7	1.9
	Asset turnover ratio		**1.1**	1.2	1.3	1.1	1.2
	Debt/equity ratio		**1.2**	0.9	1.0	0.9	0.7
Liabilities and Shareholders' Equity	Current	$	**1,075**	883	830	721	500
	Other	$	**712**	619	515	369	279
	Shareholders' equity	$	**807**	803	652	530	470
	Return on closing equity	%	**4**	15	15	14	12
Per Cent Increase From Previous Year	Sales	%	**1.2**	10.3	40.8	18.5	26.3
	Cost of goods sold	%	**4.3**	9.2	40.7	18.9	24.9
As a Per Cent of Sales	Cost of goods sold	%	**78.8**	76.4	77.1	77.2	77.5
	Gross margin	%	**21.2**	23.6	22.9	22.8	22.5
	Marketing, general and administrative	%	**11.8**	11.1	10.7	11.4	12.4
	Engineering and product development	%	**2.4**	2.2	2.2	2.4	2.2
	Profit before taxes, etc.	%	**1.1**	6.1	5.5	5.8	5.9
	Net income	%	**1.2**	4.3	3.9	4.1	3.9
Per Common Share ($U.S.)	Net sales	$	**153.71**	151.87	137.71	97.80	82.59
	Income	$	**1.26**	6.04	5.31	4.05	3.20
	Income retained	$	**0.20**	5.07	4.62	3.23	2.70
	Equity	$	**38.71**	38.51	33.56	29.04	25.77
	Funds from operations	$	**5.20**	10.45	8.48	6.38	5.38
	Toronto Stock Exchange quotes, High	$	**24⅛**	32	18⅛	24⅜	26⅛
	($Canadian) Low	$	**16⅛**	16¾	12⅛	11½	15¾
	Dividends declared ($Canadian)	$	**1.08**	1.00	0.70	0.80	0.50
	Dividends paid ($Canadian)	$	**1.08**	1.00	0.90	0.80	0.30
Shareholders/Employees	Employees		**67,151**	68,200	64,572	60,822	51,267
	Shareholders—Common shares		**30,619**	31,039	35,844	34,541	34,041
	—Preferred shares		**10,208**	10,620	5,046		
	Common shares outstanding (thousands)		**18,250**	18,250	18,250	18,248	18,236
	Preferred shares outstanding (thousands)		**3,999**	3,999	1,600		

*It is not practicable to include the impact of FASB 8 for years prior to 1974, which year includes the cumulative effect of all prior years.

Operating Companies–Facilities and Products

Farm Machinery

Argentina
Massey-Ferguson Argentina S.A.
Rosario Plant (270,000 sq. ft.) – agricultural tractors.
San Lorenzo Plant (76,000 sq. ft.) – implements.

Australia
Massey-Ferguson (Australia) Limited
Bundaberg Plant (207,000 sq. ft.) – sugar cane harvesters, loaders, backhoes.
Sunshine (Melbourne) Plant (1,500,000 sq. ft.) – combines, implements, loaders, backhoes.

Brazil
Massey-Ferguson do Brasil S.A.
Canoas Plant (581,500 sq. ft.) – combines, implements, backhoes, ICM accessories.
Sao Paulo Plant (389,000 sq. ft.) – agricultural tractors.

Canada
Massey-Ferguson Industries Limited
Brantford Locations
–*Combine Plant (812,000 sq. ft.)* – combines, combine cabs.
–*Foundry (255,000 sq. ft.)* – grey iron castings.
–*Implement Plant (804,000 sq. ft.)* – plows, harrows, mowers and other implements, combine and tractor components.
–*Steel Processing Plant (275,000 sq. ft.)* – steel stampings.
Toronto Plant (1,835,000 sq. ft.) – balers, manure spreaders, forage harvesters, tractor cabs, combine and tractor components.

Kanmet Ltd.
Cambridge Foundry (61,000 sq. ft.) – grey iron and nodular castings.

France
Massey-Ferguson S.A.
Beauvais Plant (923,000 sq. ft.) – agricultural tractors, tractor components.
Marquette Plant (1,155,000 sq. ft.) – combines, balers, tractor cabs, components and grey iron castings.

Italy
Massey-Ferguson S.p.A.
Como Plant (115,000 sq. ft.) – tractor components.
Fabbrico Plant (380,000 sq. ft.) – agricultural wheel and crawler tractors.

Rhodesia
Rhoplow Limited
Bulawayo Plant (56,000 sq. ft.) – animal draft implements, hoes, peanut shellers.

South Africa
Massey-Ferguson (South Africa) Limited
Safim Manufacturing Limited
Vereeniging Plant (658,000 sq. ft.) – implements, tractor accessories and attachments, industrial loaders, transport systems.

Slattery Manufacturing (Proprietary) Limited
Potgietersrus Plant (216,000 sq. ft.) – harvesting machinery, implements, trailers.

United Kingdom
Massey-Ferguson (United Kingdom) Limited
Baginton Plant (359,000 sq. ft.) – tractor components.
Coventry Plant (1,800,000 sq. ft.) – agricultural and industrial tractors, axles, gearboxes, other components.
Kilmarnock Plant (789,000 sq. ft.) – combines, combine tables, mowers, tractor accessories.

United States
Massey-Ferguson Inc.
Des Moines Plant (570,000 sq. ft.) – 4-wheel-drive agricultural tractors, corn heads, disc tillage implements, lawn and garden tractors.
Detroit Locations
–*Southfield Plant (820,000 sq. ft.)* – agricultural and industrial tractors.
–*Van Born Plant (497,000 sq. ft.)* – tractor transmission and axle assemblies, hydraulic and power steering pumps, tractor components.
–*West Chicago Street Plant (314,000 sq. ft.)* – tractor and combine transmission and axle components.

Badger Northland Inc.
Kaukauna Plant (267,000 sq. ft.) – Badger Northland forage and feeding equipment; solid and liquid manure systems.

West Germany
Massey-Ferguson GmbH
Eschwege Plant (587,000 sq. ft.) – roller chain, gearboxes, gears, hydraulic cylinders, combine axles, grey iron castings and other components.

Gebr. Eicher GmbH
Landau Plant (240,000 sq. ft.) – tractors and implements.

Industrial and Construction Machinery

Brazil
Massey-Ferguson do Brasil S.A.
Sorocaba Plant (147,000 sq. ft.) – crawler tractors, tractor-backhoe-loaders.

Italy
Massey-Ferguson S.p.A.
Aprilia Plant (600,000 sq. ft.) – crawler tractors, hydraulic excavators.
Ravenna Plant (110,000 sq. ft.) – construction machinery components, hydraulic excavators.

United Kingdom
Massey-Ferguson (United Kingdom) Limited
Knowsley Plant (304,000 sq. ft.) – tractor-backhoe-loaders.
Manchester Plant (511,000 sq. ft.) – tractor loaders, tractor-backhoe-loaders, 4-wheel-drive agricultural tractors, tractor components.

United States
Massey-Ferguson Inc.
Akron Plant (440,000 sq. ft.) – wheel loaders, tractor-backhoe-loaders, crawler dozers and loaders, skidders, forklifts, tractor components.

West Germany
Massey-Ferguson-Hanomag Inc. & Co.
Hanover Plant (2,900,000 sq. ft.) – wheel loaders and dozers, crawler tractors, compactors, tractor components.

Engines

Australia
Perkins Engines Australia Pty. Ltd.
Dandenong Plant (16,000 sq. ft.) – industrial diesel engine assembly, engine reconditioning.

Brazil
Motores Perkins S.A.
Sao Bernardo Plant (259,000 sq. ft.) – diesel engines.
Sao Paulo (Alvarengas) Plant (48,000 sq. ft.) – diesel engines.

Progresso Metalfrit S.A.
Sao Paulo Foundry (97,000 sq. ft.) – grey iron castings.

France
Perkins Industries S.A.
Genainville Plant (30,000 sq. ft.) – agricultural diesel engine assembly, engine reconditioning.

United Kingdom
Perkins Engines Group Limited
Peterborough Locations
–*Eastfield Plant (1,828,000 sq. ft.)* – diesel and gasoline engines, engine reconditioning.
–*Fletton Plant (198,000 sq. ft.)* – diesel engines and engine components.
–*Walton Plant (166,000 sq. ft.)* – engine components.

United States
Perkins Diesel Corporation
Canton Plant (587,000 sq. ft.) – diesel engines.

Perkins Engines Inc.
Farmington Plant (40,000 sq. ft.) – diesel engine assembly.

West Germany
Perkins Motoren GmbH
Hanover Plant (232,000 sq. ft.) – diesel engines.

Furniture

Canada
Sunar Limited
Montreal Plant (115,000 sq. ft.) – wood office furniture.
Waterloo Plant (285,000 sq. ft.) – steel office furniture.

Associate Companies and Per Cent Owned

Argentina
Perkins Argentina S.A.I.C. 26%
Cordoba Plant (262,000 sq. ft.) – diesel engines.

Gema S.A. 13%
Rosario Plant (175,000 sq. ft.) – combines.

Brazil
Companhia Industrial de Peças para Automóveis 28%
Sao Paulo Plant (196,000 sq. ft.) – forgings.

Piratininga, Implementos Agricolas Ltda. 40%
Butia Plant (65,000 sq. ft.) – farm implements.

India
Tractors and Farm Equipment Limited 49%
Madras Plant (193,000 sq. ft.) – tractors and implements.

Iran
Masiran 40%
Tabriz Plant (1,000,000 sq. ft.) – tractors, diesel engines.

Italy
Simmel S.p.A. 33%
Castelfranco Veneto Plant (380,000 sq. ft.) – crawler tractor components.

Libya
Libyan Tractor Company 33⅓%
Ta Joura (Tripoli) Plant (118,400 sq. ft.) – tractors.

Malawi
Agrimal (Malawi) Limited 20%
Blantyre Plant (12,000 sq. ft.) – hoes, animal draft equipment.

Mexico
Massey-Ferguson de Mexico S.A. 49%
Queretaro Plant (145,000 sq. ft.) – tractors.
Naucalpan de Juarez Plant (58,000 sq. ft.) – farm implements.

Motores Perkins S.A. 21%
Toluca Plant (153,000 sq. ft.) – diesel engines.

Morocco
Compagnie Maghrebine de Materiels Agricoles et Industriels S.A. 24%
Casablanca Plant (54,000 sq. ft.) – tractors.

Peru
Tractores Andinos S.A. 49%
Trujillo Plant (70,000 sq. ft.) – tractors.

Motores Diesel Andinos S.A. 24%
Trujillo Plant (109,000 sq. ft.) – diesel engines.

Spain
Motor Iberica S.A. 37%
Barcelona Locations
–*Lopez Varela Plant (406,000 sq. ft.)* – tractor components.
–*Zona Franca Plant (779,000 sq. ft.)* – trucks and tractors, tractor-backhoe-loaders.
–*Montcada Plant (196,000 sq. ft.)* – sheet-metal components.
–*Corrales de Buelna Plant (207,000 sq. ft.)* – tractors and engine components.
–*Corrales de Buelna Foundry (528,000 sq. ft.)* – castings.
–*Ejea Plant (97,000 sq. ft.)* – farm implements.
Madrid Locations
–*Avda. Aragon Plant (109,000 sq. ft.)* – diesel engine components.
–*Cuatro Vientos Plant (726,000 sq. ft.)* – diesel engines and trucks.
–*Noain Plant (187,000 sq. ft.)* – combines, balers, cornheads.
–*Tauste Plant (16,000 sq. ft.)* – farm implements.

Other Massey-Ferguson and Perkins Companies

Canada
Perkins Engines Canada Limited
Rexdale

France
Moteurs Perkins S.A.
Saint-Denis

Ireland
Massey-Ferguson (Eire) Limited
Dublin

Italy
Motori Perkins S.p.A.
Como

South Africa
Perkins Engines (Proprietary) Limited
Johannesburg

United Kingdom
Massey-Ferguson (Export) Limited
Coventry

Massey-Ferguson-Perkins Limited
London

Perkins Engines Limited
Peterborough

West Germany
Perkins Motoren GmbH
Kleinostheim

Licensee Locations

Farm Machinery: Greece, Japan, Kenya, Malaysia, Pakistan, Poland, Portugal, Thailand, Turkey, Uruguay

Engines: Greece, Pakistan, Poland, Republic of Korea, Uruguay, Yugoslavia

ICM: India

Furniture: France, Japan

Directors' Affiliations

John A. McDougald
Chairman of the Board of Directors and Executive Committee
Massey-Ferguson Limited
Chairman of the Board and President – Argus Corporation Limited.
Chairman of the Board and Chairman of the Executive Committee – Dominion Stores Limited.
Chairman of the Executive Committee and Vice President – Hollinger Mines Limited.
Vice President, Director and Member Executive Committee – Canadian Imperial Bank of Commerce.

Albert A. Thornbrough
Deputy Chairman of the Board of Directors, President and Chief Executive Officer
Massey-Ferguson Limited
Director and Member Executive Committee – Canadian Imperial Bank of Commerce.
Director – Argus Corporation Limited.

The Marquess of Abergavenny
Chancellor of the Most Noble Order of the Garter.
Director – Lloyds Bank Limited; Lloyds Bank Property Company Ltd.; Nuffield Nursing Homes Management Ltd.; Whitbread Investment Company Ltd., United Kingdom.
Her Majesty's Representative at Ascot, Lord Lieutenant of the County of Sussex.
President – Royal Agricultural Society of England, 1967.
Deputy President – Royal Agricultural Society of England, 1972.
President – Royal Association of British Dairy Farmers, 1955 and 1963.

Alex E. Barron
President – Canadian General Investments Ltd., Toronto, Canada.
Chairman – Canadian Tire Corporation Limited.
Director – Argus Corporation Limited; The Canada Trust Company; Halliburton Company.

Henry Borden, Q.C.
Director—IBM Canada Ltd., Toronto, Canada; Canadian Investment Fund Limited, Montreal, Canada.
Honorary Director—Brascan Limited; The Canada Trust Co. Mortgage Corporation.
Director Emeritus—Canadian Imperial Bank of Commerce.
Past President, Board of Governors—University of Toronto.
Past President—Royal Agricultural Winter Fair, Canada.

Charles L. Gundy
Chairman – Wood Gundy, Limited, Toronto, Canada.
Director – Simpsons Limited; Simpsons-Sears Limited; Abitibi Paper Co. Ltd.; Canada Cement Lafarge Ltd.; United Corporations Limited.
Honorary Chairman, Board of Trustees – Hospital for Sick Children, Toronto.

Gilbert W. Humphrey
Chairman – The Hanna Mining Company, Cleveland, U.S.A.
Chairman, Executive Committee – National Steel Corporation.
Director – General Reinsurance Corporation; National City Corporation; Sun Life Assurance Company of Canada.

H. N. R. Jackman
Chairman—The Empire Life Insurance Company Limited; Economic Investment Trust Limited, Toronto, Canada.
Vice-Chairman—The Dominion of Canada General Insurance Company Limited; Victoria and Grey Trust Company.
Director and Member Executive Committee—Argus Corporation Limited; Algoma Central Railway Limited.

John D. Leitch
President – Upper Lakes Shipping Ltd., Toronto, Canada.
Director and Vice President – Canadian Imperial Bank of Commerce.
Director – Dominion Foundries and Steel Ltd.; Canada Life Assurance Company; American Airlines Inc.; Maple Leaf Mills Limited; Canadian Oxygen Limited.

A. Bruce Matthews
Executive Vice President and Director – Argus Corporation Limited.
Chairman of Executive Committee – Canada Permanent Trust Company; Canada Permanent Mortgage Corporation, Toronto, Canada.
Chairman and Director – Dome Mines Limited.
Director – The Excelsior Life Insurance Company; Aetna Life & Casualty.

Maxwell C. G. Meighen
Chairman – Canadian General Investments Ltd., Toronto, Canada; Domtar Limited.
Vice President – The Canada Trust Company.
Director – The Algoma Steel Corp., Ltd.
Vice President and Director – Argus Corporation Limited.

John E. Mitchell
Executive Vice President Americas – Massey-Ferguson Limited.
Director – Iowa College Foundation.
Director and Member Executive Committee – Iowa-Des Moines National Bank; Farm and Industrial Equipment Institute.

A. M. Runciman
President – United Grain Growers Limited, Winnipeg, Canada.
Director – The Great-West Life Assurance Company; Canadian Pacific Limited; The Royal Bank of Canada.
Honorary Member – Agricultural Institute of Canada; Manitoba Institute of Agrologists; Canadian Seed Trade Association; Canadian Seed Growers Association.
Member – Economic Council of Canada.

John G. Staiger
Senior Vice President – Massey-Ferguson Limited.
Director, Past Chairman and Past President – Farm and Industrial Equipment Institute.
Member, Board of Trustees – Iowa Methodist Hospital.

J. Page R. Wadsworth
Chairman – Confederation Life Insurance Company, Toronto, Canada.
Director – Canadian Imperial Bank of Commerce; MacMillan Bloedel Limited; Campbell Soup Company, Camden, New Jersey.

Trumbull Warren
Chairman, President and Director – Rheem Canada Limited, Hamilton, Canada.
Chairman and Director – Phoenix Assurance Company of Canada; Acadia Life Insurance Co.
Director – Argus Corporation Limited; General Bakeries Ltd.; Hendrie & Co.
Member – Hamilton Advisory Board; The Royal Trust Co.
Honorary President – Royal Agricultural Winter Fair, Canada.

Colin W. Webster
Vice Chairman – Canadian Fuel Marketers Ltd., Montreal, Canada.
Director – Sun Life Assurance Company of Canada; Canadian Liquid Air Ltd.; Pacific Petroleums Ltd.
Governor Emeritus – McGill University.

The Duke of Wellington
Director – Motor Iberica S.A., Barcelona, Spain.
Colonel Commanding – The Household Cavalry, 1959-60.
Governor – Wellington College, United Kingdom.
County Councillor – Hampshire, 1967-74.
Colonel-in-Chief – The Duke of Wellington's Regiment.
Hon. Colonel – 2nd Bn. The Wessex Regiment (V).
Deputy Lieutenant for the County of Hampshire.
Council Member – Royal Agricultural Society of England.

Common and Preferred Shares

Common Shares

Transfer Agents

National Trust Company, Limited, Toronto, Winnipeg, Calgary, Vancouver

Canada Permanent Trust Company, Montreal

The Canadian Bank of Commerce Trust Company, New York

Canadian Imperial Bank of Commerce, London, England

Registrars

Crown Trust Company, Toronto, Montreal, Winnipeg, Calgary, Vancouver

Morgan Guaranty Trust Company of New York, New York

Hill Samuel & Co. Ltd., London, England

Stock Exchanges

The common shares of Massey-Ferguson Limited are listed on the Toronto, Montreal and Vancouver Stock Exchanges in Canada, on the New York Stock Exchange in the United States and on the London Stock Exchange in England.

These shares have unlisted trading privileges in the United States on the Midwest Stock Exchange in Chicago, the PBW Stock Exchange, the Boston Stock Exchange and the Pacific Coast Stock Exchange. The shares are also traded on the Amsterdam Stock Exchange in the form of Dutch Bearer Certificates.

Preferred Shares

Transfer Agents

Crown Trust Company, Toronto, Montreal, Winnipeg, Calgary, Vancouver

Canada Permanent Trust Company, Regina

Registrar

The Canada Trust Company, Toronto, Montreal, Winnipeg, Calgary, Vancouver

Stock Exchanges

The preferred shares of Massey-Ferguson Limited are listed only on the Toronto, Montreal and Vancouver Stock Exchanges in Canada.

Dividend Reinvestment Plan

National Trust Company offers a Dividend Reinvestment Plan for preferred and common shareholders of the Company. Information on the Plan can be obtained by writing National Trust Company, Limited, Stock Transfer Department, 18 King Street East, Toronto M5C 4E4.

Printed in Canada

Massey-Ferguson Limited
200 University Avenue, Toronto, M5H 3E4,
Canada

Printed in Canada

Massey-Ferguson Limited

Financial Report
6 months ended April 30, 1977

News highlights

- **$67 Million Tractor Plant in Pakistan.** In May, the Pakistani government announced that it had selected Massey-Ferguson for a $67 million venture to establish a tractor manufacturing plant with a planned annual capacity of 15,000 units. A formal agreement currently is being negotiated. The Pakistan Tractor Corporation, which is government-owned, will contribute 51 per cent of the equity, expected to total about $21.5 million, and Massey-Ferguson 49 per cent.

- **$15 Million Order from Egypt.** Massey-Ferguson received an order worth more than $15 million in May from the El Nasr Automotive Manufacturing Co. (NASCO) for 2,100 sets of farm tractor components and parts to be assembled at NASCO's Cairo factory. The order is for the 60-horsepower MF 265 model manufactured in the U.S.

- **New Industrial and Construction Machines Announced.** In March, it was announced that 29 new industrial and construction machines will be launched within the next three years. As a result of the expansion, more than 60 per cent of the product range will be new by 1979.

- **New Perkins Contract in Japan.** The Engines Group has entered into a supply agreement with Toyo Kogyo of Hiroshima, Japan. Toyo Kogyo will build Perkins six-cylinder 247-cubic-inch displacement diesel engines which Perkins will market on a world-wide basis.

- **Mexican Diesel Plant Begins Production.** A 188,000-square-foot engine factory of Motores Perkins S.A. at Toluca, near Mexico City, began production in February. The facility has a planned capacity of 36,000 engines annually, triple the capacity of the previous facility.

- **Perkins Engine Production Launched in South Korea.** In February, production of Perkins four- and six-cylinder diesels began in South Korea under a licence agreement with the Hyundai Motor Company. Capacity at Hyundai's Ulsan factory will allow for ultimate annual production of 24,000 units.

production. In Brazil, the improved flow of farm credit in the past three months should allow tractor production to be raised to match the current level of retail sales.

Real economic growth in the major industrial economies has been somewhat stronger than anticipated in the first half and although we expect some slowing in the second half, the strong housing market in the United States and government construction programs in the U.S., Japan and Germany will tend to support the recovery now underway in the industrial and construction machinery markets. Diesel engine sales also are being stimulated by economic growth coupled with energy conservation measures taken by some governments.

As a result of these positive factors, sales of our diesel engines and of our industrial and construction machinery, which were relatively strong in the first half of the year, and sales of farm machinery are expected to show significant improvement in the last six months.

In the absence of production disruptions, we expect the flow of product and the level of sales will accelerate, enabling us to achieve a record level of operations in the second half of the year and thus more adequately meet the generally strong demand for our products, particularly farm tractors.

Albert A. Thornbrough

June 15, 1977

President and
Chief Executive Officer

Massey-Ferguson Limited

Consolidated statements of income
(unaudited)

(Thousands of U.S. Dollars)

	Three months ended April 30		Six months ended April 30	
	1977	1976*	**1977**	1976*
Net sales by territories				
Europe	**$257,756**	$257,357	**$ 461,627**	$ 446,288
North America	**202,057**	212,497	**324,652**	330,698
Latin America	**92,917**	122,534	**173,464**	227,026
Asia	**37,996**	51,740	**70,952**	90,774
Africa	**34,344**	37,706	**63,423**	64,601
Australasia	**35,866**	31,743	**58,234**	52,678
Total net sales	**660,936**	713,577	**1,152,352**	1,212,065
Costs and expenses				
Cost of goods sold	**519,347**	530,048	**893,092**	913,121
Marketing, general and administrative expenses	**80,603**	83,496	**147,858**	141,349
Engineering and product development expenses	**17,590**	15,814	**32,907**	29,767
Interest on long-term debt	**17,231**	16,105	**33,696**	29,438
Other interest (net)	**27,951**	14,407	**42,887**	26,050
Exchange adjustments	**2,748**	(1,077)	**5,911**	(178)
Minority interest	**802**	652	**153**	64
Miscellaneous	**(2,391)**	(2,035)	**(5,064)**	(3,571)
	663,881	657,410	**1,151,440**	1,136,040
Profit (loss) before income taxes and items shown below	**(2,945)**	56,167	**912**	76,025
Income taxes (recovery)	**(125)**	18,727	**1,574**	28,323
Profit (loss) before items shown below	**(2,820)**	37,440	**(662)**	47,702
Equity in net income of finance subsidiaries	**1,813**	2,012	**2,914**	3,716
Equity in net income of Associate companies	**3,123**	1,824	**2,977**	2,429
Net income	**$ 2,116**	$ 41,276	**$ 5,229**	$ 53,847
Depreciation, and amortization of production tooling included above	**$ 16,363**	$ 12,871	**$ 32,900**	$ 24,940
Preferred dividend	**$ 2,535**	$ 1,527	**$ 5,052**	$ 2,516
Common shares outstanding	**18,250,350**	18,250,350	**18,250,350**	18,250,350
Net income (loss) per common share (in U.S. Dollars) **after preferred dividends**	**$(0.02)**	$2.18	**$0.01**	$2.81

***Restatement of 1976 quarterly net income to reflect the impact of FASB Statement No. 8**

At October 31, 1976 the company adopted certain changes in the method of translating foreign currency statements as recommended by the U.S. Financial Accounting Standards Board (FASB) Statement No. 8 and the 1976 comparative figures have been restated accordingly. The table sets out the impact of this change on net income by quarter for the year 1976.

	Originally reported	Impact of FASB 8	Restated to FASB 8	Restated per common share
First quarter	$ 12,171	$ 400	$ 12,571	$0.63
Second quarter	31,876	9,400	41,276	2.18
Third quarter	27,068	(14,800)	12,268	0.53
Fourth quarter	42,899	8,900	51,799	2.70
Full year	$114,014	$ 3,900	$117,914	$6.04

Sales by major product groups
6 months ended April 30

	1977	1976	% Increase (Decrease)
	(Millions of U.S. Dollars)		
Farm Machinery	$ 785.6	$ 870.9	(9.8)
Industrial and Construction Machinery	162.9	157.6	3.4
Engines	177.3	159.8	11.0
Other Products	26.5	23.8	11.3
Total	$1,152.3	$1,212.1	(4.9)
Parts (included in the above figures)			
Farm Machinery	*$ 98.2*	*$ 103.3*	*(4.9)*
ICM	*29.0*	*27.0*	*7.4*
Engines	*26.1*	*30.1*	*(13.3)*
Total	*$ 153.3*	*$ 160.4*	*(4.4)*

Sales by major markets
6 months ended April 30

	1977	1976	% Increase (Decrease)
	(Millions of U.S. Dollars)		
United States	$ 262.0	$ 257.1	1.9
United Kingdom	117.8	113.4	3.9
Brazil	104.8	167.4	(37.4)
Germany	96.0	81.0	18.5
France	84.3	89.5	(5.8)
Italy	75.0	63.8	17.6
Canada	62.6	73.6	(14.9)
Australasia	58.2	52.7	10.4
Argentina	47.6	26.0	83.1
South Africa	32.7	33.2	(1.5)
Turkey	25.9	47.6	(45.6)
Japan	10.4	11.3	(8.0)
Mexico	4.5	19.8	(77.3)
All other	170.5	175.7	(3.0)
Total	$1,152.3	$1,212.1	(4.9)

Massey-Ferguson Limited

Summarized consolidated balance sheets
(unaudited)

(Thousands of U.S. Dollars)

	April 30 1977	1976*
ASSETS		
Current assets		
Cash	$ 13,498	$ 40,918
Receivables	430,667	397,644
Products sold to North American dealers under deferred floor plan arrangements	249,047	243,651
Inventories	1,173,440	973,843
Prepaid expenses and other current assets	107,393	94,341
Total current assets	1,974,045	1,750,397
Investments	162,562	129,186
Fixed assets	546,527	430,270
Other assets and deferred charges	28,878	17,818
Total assets	$2,712,012	$2,327,671

	1977	1976*
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank borrowings	$ 566,611	$ 401,055
Current portion of long-term debt	79,740	62,903
Accounts payable	359,504	310,093
Other current liabilities	288,435	302,689
Total current liabilities	1,294,290	1,076,740
Deferred income taxes	70,092	64,980
Long-term debt	537,349	414,628
Minority interest in subsidiaries	17,810	17,858
Shareholders' equity	792,471	753,465
Total liabilities and shareholders' equity	$2,712,012	$2,327,671

*Restated — See note to Consolidated Statements of Income

Massey-Ferguson Limited

To the shareholders

Consolidated sales of Massey-Ferguson Limited for the six months ended April 30, 1977, were U.S. $1,152 million compared with $1,212 million for the same period in 1976, a decrease of 4.9 per cent.

By product categories, farm machinery sales of $786 million were down 9.8 per cent; industrial and construction machinery sales of $163 million were up 3.4 per cent; and diesel engine sales of $177 million were up 11.0 per cent.

Consolidated net income for the first six months was $5.2 million compared with $53.8 million for the same period in 1976. After provision for preferred dividends, net income per common share was one cent compared with $2.81 in 1976.

For the second quarter of 1977, sales were $661 million, a decrease of 7.4 per cent. Net income was $2.1 million compared with $41.3 million for the second quarter of 1976. Net loss per share after provision for preferred dividends was two cents compared with $2.18 profit last year.

We have indicated previously that first-half results would be heavily penalized by work stoppages during the first and second quarters in our factories at Coventry and Kilmarnock in the United Kingdom, and at Beauvais, France. New product introductions in many of our plants in Europe and North America also disrupted our production programs. In Brazil, cut-backs in production were necessary to reduce the backlog of farm machinery caused by a temporary constraint on farm credit.

European sales increased slightly during the second quarter because of relatively strong sales of diesel engines and industrial and construction machinery which offset the reduced availability of farm tractors.

Sales in North America, which are on a settlement basis and represent sales to the final customer, were down 4.9 per cent for the second quarter. Sales gains in the U.S. market were offset by reduced farm machinery demand in Western Canada as a result of drought conditions.

Latin American sales were down 24.2 per cent for the second quarter, largely the result of a reduced flow of credit for farmers in Brazil. Argentina recorded a strong sales increase of 72.4 per cent.

Sales in Australasia were up almost 13.0 per cent for the second quarter.

Sales in Asia were down 26.6 per cent for the second quarter, reflecting primarily a lack of tractors from the U.K. as well as a slowing of sales to Turkey due to some constraint on credit.

Production disruptions caused the cost of goods sold as a percentage of sales to increase from 74.3 per cent in the second quarter of 1976 to 78.6 per cent in the same period in 1977.

Marketing, general and administrative expenses were down in the second quarter compared with the same period last year, but engineering and product development expenses were up.

Interest costs were up $14.7 million for the second quarter because of an abnormally high level of work-in-process inventory arising initially from production disruptions and subsequently from actions to increase the level of production for the second half of the year.

New Products

During the six-month period, a number of significant new products were introduced in various markets. Additional models of the new small tractor line were introduced in European markets. Following the successful introduction of new 190- and 160-horsepower tractors in North America, production of the new line will be increased to meet the strong demand for these tractors.

Two large combines, built to European specifications in North America, were introduced in all European markets. Introduction of the machines provides European buyers with a broader choice of MF harvesters to meet local conditions.

Production of a line of new balers was begun in France to replace a model previously imported from Canada into European markets.

A new cane harvester, built in Australia, was introduced in selected world markets.

In Argentina, a new line of small tractors and a new 102-horsepower model were launched in this rapidly growing market.

Crop Forecast — 1977

The world outlook for 1977 grain crops (wheat, feed grains and rice) is uncertain as early drought and erratic weather patterns affect crops in some areas.

Drought conditions in China, India, North Africa and Australia are likely to result in reduced production relative to last year. Although growing conditions in the winter wheat area of the U.S.S.R. are reported to be quite favorable, there is concern about lack of moisture in the spring grain areas. Also, Brazil's soybean crop, which had been expected to establish a record because of increased acreage, is suffering from dry conditions and is currently estimated to be at or below last year.

On the other hand, moisture conditions are highly favorable in both Western and Eastern Europe. In Argentina, the government's agricultural policies are encouraging the planting of additional acreage which is expected to yield a significant increase in production in 1977.

Spring rains in North America resulted in a much improved outlook for crop production. However, production is unlikely to reach the 1976 level because of dry conditions earlier in the year over a large portion of the wheat and corn producing areas.

In summary, current conditions indicate world grain production is unlikely to exceed the record established in 1976 unless rainfall is timely during the growing season. As a result, world-wide output could decline by as much as 30-million metric tons bringing production in line with anticipated consumption.

The Outlook

A high level of world demand is expected to continue in the farm machinery industry. Relatively high carryover stocks of wheat and lower market price, however, may result in somewhat lower farm income and, therefore, lower sales of farm machinery in major wheat producing areas.

In order to meet the demand for tractors, the company's plants in the United Kingdom, France and North America are scheduled for maximum output during the remainder of the year and additional shifts are working in some areas of